Russia
How a convertible rouble will work
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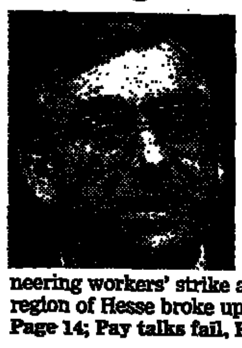
FINANCIAL TIMES

Thursday May 14 1992 — EUROPE'S BUSINESS NEWSPAPER — D8523A

Waigel promises era of German budget austerity



Theo Waigel, German finance minister, promised to bring public spending under control by 1995 with a tough austerity programme. Mr Waigel talked of the need to keep pay settlements at an "appropriate" level, but even as he spoke Germany edged towards an engineering workers' strike as pay talks in the key region of Hesse broke up without agreement. Page 14; Pay talks fail, Page 2

Olympia & York is seeking extra funds for its Canadian operations before paying C$17m (US$14m) in overdue interest on publicly traded bonds. Meanwhile, bankers in a loan syndicate led by J.P. Morgan will foreclose on a $160m O&Y loan made last year. Page 15

Postal services: The immediate liberalisation of European cross-border and direct mail services looks less likely as the EC softened its tone on postal monopolies after intense lobbying by national postal authorities. Page 14, Editorial Comment, Page 12

India's state-owned financial institutions bought shares furiously yesterday to reverse a stock market collapse triggered by revelations of financial scandal. Page 14

Audi, subsidiary of Volkswagen motor group, may build a car plant in North America where its sales are recovering after several difficult years. Page 15

ENEL, Italy's state-owned electricity generator, signed one of the world's biggest energy supply contracts in a liquefied natural gas deal with Nigeria worth around $8bn over 20 years. Page 6

Brazilian debt: The finance minister intends to negotiate a restructuring of the country's $42bn commercial debt, for which Brazil may for the first time be willing to allocate foreign reserves. Page 6

Ratners Group, troubled UK jewellery chain, is to take an extra £53m ($94m) exceptional charge this year to cover costs of sweeping restructuring. Page 15

BICC, UK cables and construction group, launched a one-for-five rights issue to raise £154m ($273m), the first big issue since the general election triggered a sharp rise in the stock market. Page 21; Lex, Page 14

GPA, world's largest aircraft leasing group, will today announce the flotation of 40m shares to raise an expected total of $800m – only half the original intention. Page 15

Sega Enterprises, Japanese video game maker, paid $43m to settle a patent dispute with a US inventor over colour image-display technology. Page 17

Philippine poll: Fidel Ramos, former defence chief, last night appeared to be catching up with rival Miriam Defensor Santiago in the race for the presidency. Page 4

Indonesian probe: Opposition groups, fighting a general election campaign, have called for an investigation into the business interests of President Suharto's children. Page 4

South African Breweries, consumer goods group, overcome severe recession to improve annual earnings thanks to a strong performance from its beer division. Page 17

Israeli raid: Israeli aircraft destroyed a school and wounded three pro-Iranian Hizbollah guerrillas in the first air raid into south Lebanon for three months. The raid came on the same day as Lebanon appointed Rashid Solh as its new prime minister. Page 4

Venezuela's national oil company is spending more than $3.8bn to upgrade two refineries. Page 23

Daiwa Bank, Japanese commercial bank, may rescue the finances of Yanmar Diesel group, which faces big losses on its securities investments. Page 17

Stadium disaster: The chief of Corsica's Bastia football club was indicted for manslaughter over last week's collapse of a soccer stadium stand which killed 13 people and injured 700.

Nigerian riots: Several people were believed killed or seriously injured after students, angered by chronic fuel shortages, clashed with riot police in Lagos.

■ STOCK MARKET INDICES		
FT-SE 100:	2,720.5	(-1.9)
Yield	4.48	
FT-SE Eurotrack 100	1,187.91	(-0.49)
FT-A All Share	1,319.38	(-0.0%)
FT-A World Index	143.29	(+0.3%)
Nikkei	18,768.57	(+260.04)
New York:		
Dow Jones Ind Ave	3,391.98	(+6.86)
S&P Composite	416.45	(+1.16)
■ US CLOSING RATES		
Federal Funds:	3¾%	(3 11/16%)
3-mo Treas Bills: Yld	3.66%	(3.684%)
Long Bond	101 23/32	(101 7/16)
Yield	7.84%	(7.858%)
■ LONDON MONEY		
3-mo Interbank	10 1/16%	(10⅛%)
Liffe long gilt future:	Jun 98 13/32 (Jun 98 11/32)	
■ NORTH SEA OIL (Argus)		
Brent 15-day (July)	$19.78	(19.85)
■ Gold		
New York Comex (May)	$335.6	(335.3)
London	$335.3	(335.2)

■ STERLING		
New York:		
$	1.82835	(1.8118)
London:		
$	1.8135	(1.8125)
DM	2.9425	(2.94)
FFr	9.875	(9.865)
SFr	2.71	(2.725)
Y	236.25	(236.5)
£ Index	93.8	(same)
■ DOLLAR		
New York:		
DM	1.60925	(1.62415)
FFr	5.4825	(5.45)
SFr	1.481	(1.50385)
Y	129.68	(130.65)
London:		
DM	1.622	(1.6215)
FFr	5.445	(5.4425)
SFr	1.495	(1.504)
Y	130.25	(130.45)
$ Index	63.8	(64.1)
Tokyo close Y 130.3		

Austria	Sch30	Hungary	Ft162	Malta	Lm0.50	S.Arabia	SR9.00
Bahrain	Din1.000	Iceland	IKr180	Morocco	MDh11	Singapore	S$4.10
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3600	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.80
Denmark	DKr14	Italy	L2500	Oman	OR1.20	Thailand	Bht50
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1.000
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Turkey	L6000
France	FFr8.50	Kuwait	Fils.500	Poland	Zl 18,000	UAE	Dh9.00
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es180		
Greece	Dr250	Lux	LFr60	Qatar	QR10.00		

EC levy dependent on Japan and US imposing similar measures

Brussels agrees to tax energy

By David Gardner in Strasbourg

THE European Commission yesterday approved its controversial draft directive to tax energy to combat global warming.

EC figures indicate that the tax would have its biggest impact on industry and power station operators. It would result in a rise in the price of petrol and diesel fuel by the year 2000 of 6 per cent and 11 per cent respectively.

Mr Carlo Ripa di Meana, the EC environment commissioner, hailed yesterday's action as "a historical turning point". But the Commission made the introduction of the tax conditional on the US and Japan adopting similar measures to curb carbon dioxide emissions.

This prompted claims by environmentalists that Brussels had all but shelved the measure.

However, Mr di Meana warned that if the US rejected consideration of a similar strategy at the Earth Summit in Rio de Janeiro in three weeks' time, the EC might press ahead with a modified version of the tax.

Mr Ripa di Meana said the Commission proposal was revolutionary: "This is the first time price and market instruments have been incorporated for the defence of the environment in such an extensive manner."

If approved and applied by the 12, the tax would start at $3 a barrel of oil equivalent in 1993, rising $1 a year to reach $10 a barrel in 2000, by when the EC is committed to stabilising CO_2 emissions at 1990 levels.

The levy would fall half on the fuel content of all non-renewable energy and half on its carbon content, and would be balanced by tax reductions in other areas.

Brussels reckons that economic growth would be affected only marginally, dropping by between 0.04 and 0.2 per cent a year under the full tax, with additional price rises of between 0.3 and 0.5 per cent a year.

The draft directive seeks to protect the competitive position of European industry if the EC's partners fail to introduce similar measures. These include extensive exemptions for energy-intensive industries such as chemicals, steel, cement and paper. Such industries would have to cut emissions through alternative programmes and could get tax breaks for investing in energy-efficient plant.

States in particular economic difficulties could reduce the tax level, and/or get EC funding to help them implement it.

The safeguards were intended by Mr Ripa di Meana to enable the EC to go ahead unilaterally.

Now, however, the decision to await the response of a US administration which has ruled out fiscal means to fight the build-up of greenhouse gases, appears to have handed Washington the power to veto the EC going ahead.

The tax as framed should now get endorsement in principle from the 12 at the council of environment ministers on May 26.

The Netherlands and Denmark already have energy taxes, while Germany, which expressed its disappointment with the Commission's decision yesterday, said it would go ahead on its own anyway. Such action could introduce new competition distortions in the single market.

The Commission's justification for the tax is that other measures in the package – to save energy, fund research into renewable energy and promote clean technology – will deliver less than half the emissions reduction target the EC has promised. Compliance seems certain to require either some form of the tax, or other fiscal measures to subsidise clean technology, an alternative the Dutch have pioneered.

National Power, the UK electricity generator and one of Europe's largest coal consumers, said last night it would comply with whatever tax was legislated. But it said it did not believe the proposal was either practical or appropriate, adding: "There are other ways of achieving emission reduction targets."

Steep cost increases, Page 2
Brussels softens tone, Page 14

UN staff told to pull out of Sarajevo

By Laura Silber in Belgrade and Michael Littlejohns in New York

THE UN peacekeeping headquarters for Croatia, which is based in Sarajevo, in neighbouring Bosnia-Hercegovina, has been urged to withdraw because of the fighting in the Bosnian capital.

The call yesterday from Mr Boutros Boutros Ghali, United Nations secretary-general, coincided with a lull in the fighting in Sarajevo as Serb irregulars from the surrounding hills, who have besieged the city, declared a five-day ceasefire. Shops and cafés reopened and people emerged from their cellars.

In a report to the UN Security Council, Mr Boutros Ghali said: "I am convinced by the operational and security arguments in favour of the temporary relocation of the bulk of the force's HQ staff from Sarajevo". His report also questioned the future of UN peace plan for Croatia.

He added that he would instruct General Satish Nambiar, commander of UN forces in the former Yugoslav republics, to relocate "pending the restoration of calm in the city".

Mr Ghali also ruled out the possibility of expanding peacekeeping operations to Bosnia, where Serb irregulars, backed by the federal army, have seized control of half the territory.

But in a further apparent setback for UN operations in the region, the report cast doubt on the future of the UN peacekeeping plan for Croatia.

The plan calls for the withdrawal of the Serb-led federal army, and the demilitarisation of three UN Protected Areas after the deployment of 14,000 peacekeepers, which had been scheduled for later this month.

"Since the Security Council approved the plan, the developments have raised doubts about the practicability of the operation", he said.

UN officials say local Serb leaders in Croatia have refused to demobilise reservists if the UNPAs are not extended to include other regions populated by Serbs in Croatia.

The 11-page report said failure to demobilise would make it impossible to implement the UN operations. The recommendations were based on a fact-finding mission by Mr Marrack Goulding, the UN under-secretary, who last week met Serb, Croat and Moslem leaders.

Mr Boutros Ghali warned that renewed hostilities in Croatia could not be ruled out and said that, if this happened, the deployment of the UN forces would have to be reconsidered.

The Yugoslav news agency Tanjug, meanwhile, reported some scattered fighting in north-east Bosnia. It also said that 10,000 Serb refugees had abandoned their homes around Bosanski Brod and headed for Serb-run areas in a nine-mile convoy.

Parliamentarians of the Christian Democrat and far right Social Movement parties scuffle in the chamber of deputies during yesterday's attempt to elect a president

Brawl adds to the drama of electing Italian president

By Robert Graham in Rome

THE POLITICS of electing Italy's ninth president turned into pure theatre yesterday.

In the first special session of the joint houses of parliament, everyone voted in the knowledge that no candidate stood a chance of success. Nor was any candidate intended to succeed by obtaining the necessary two-thirds majority of the 1,014 potential voters.

The only deviation from the script was a minor brawl before voting, provoked by a deputy of the neo-fascist MFI party who shouted "Robbers!" at his Christian Democrat colleagues. The insult touched an especially raw nerve because Senator Seve Citrisi, the Christian Democrats' national treasurer, had just been served with notice of investigation in the ever-expanding Milan municipal corruption scandal.

This procedure might have seemed a perverse way of finding a new head of state to replace Mr Francesco Cossiga, who resigned on April 25, two months before his seven-year term was due to end. But when all the 16 parties in parliament have been unable to agree in advance, either among themselves or between each other, it made subtle sense.

Like bridge players opening the bidding to discover strengths of the others' hands, the parties put forward their own, usually disposable, candidates to test how their members would vote under party orders.

It was therefore virtually meaningless that the candidate who garnered the most votes was Mr Giorgio Di Giuseppe, an insignificant Christian Democrat, and among the least supported was a politician with a reasonable chance of success, Mr Giovanni Spadolini, the republic's interim president. Simply, the Christian Democrats possessed the largest number of votes and the republicans are one of the smallest parties.

Mr Di Giuseppe, a worthy southern backbencher, was drafted on the day as the Christian Democrats flag bearer after the party had failed to decide among its various factions whom to back and what alliances to form. The 296 votes he chalked up were for the party, not him.

The parties' heavyweights like Mr Giulio Andreotti, the outgoing prime minister, and Mr Arnaldo Forlani, the secretary, held back to study form. Mr Andreotti, ever the master of ambiguity, sat hunched in his seat – not a trace of emotion to suggest the presidency remains his final political ambition after 40 years in government.

Every other party heavily backed its own players as expected. Such was the predictability

Continued on Page 14

Preacher Pat hopes to work a miracle at UPI

By Jurek Martin in Washington

JOURNALISTS did not know whether to laugh, cry, or welcome the apparent rescue of a venerable institution.

"It's unfair, he'll get his scoops from God," they said; or: "We can't compete with a hotline to Heaven."

The news, from a bankruptcy auction in Rutland, Vermont, late on Tuesday, was that a television evangelist had made a cash bid for United Press International.

The Rev Marion G. Robertson is universally known on earth – and perhaps upstairs – as Pat. He put in the only complete bid for UPI, the 85-year-old news agency that has been on its last legs for more than a decade.

UPI prided itself on being first with the news of President Kennedy's assassination and won nine hallowed Pulitzer prizes for its news coverage.

Pat Robertson is undoubtedly the best known televangelist not now in jail for fraud or otherwise under a cloud for sexual misdemeanours. More than that, he ran for the Republican presidential nomination four years ago on an extremely conservative platform and spent more than $20m to carry five states in the primaries.

Yesterday, he first said he had no intention of turning UPI into a religious wire service or otherwise to change its traditional editorial content. Then he appeared on his 700 Club flagship programme and pronounced that buying UPI might be "a little opportunity" for God to touch the media "with his truth and love".

Mr Robertson used to claim he communicated directly with the Almighty fairly frequently. This assertion may disturb UPI's biggest remaining client, the definitely non-Christian Kyodo news agency of Japan. It has said it would tear up its annually renewable contract if what it got took on a proselytising tone.

Until Tuesday night, Mr Robertson had not entered the public's political consciousness much since 1988.

This reflects the decline in the overt influence of the religious right as a result of the scandals surrounding televangelists such as Jim and Tammy Fae Bakker

Continued on Page 14

CONTENTS

Engineering pay talks fail in Germany

By Quentin Peel in Bonn and Andrew Fisher in Munich

GERMANY took another step closer to an engineering workers' strike yesterday as pay negotiations in the key region of Hesse broke up without agreement.

The fruitless talks between leaders of the IG Metall union and engineering employers coincided with growing signs that public sector workers might reject the deal last week that ended their 11-day strike.

The deadlock in the engineering dispute appeared to set Germany on course for a strike by metalworkers from May 25.

Further talks are due to be held today in the region of North Rhine-Westphalia, but it was not immediately clear whether they would go ahead as planned.

A union negotiator said the employers in Hesse had not improved their original offer and so IG Metall today would declare the negotiations in the region as failed.

The union entered the Frankfurt talks expecting employers to improve their 3.3 per cent offer, which it has so far rejected as totally unrealistic. The union originally claimed 9.5 per cent but has said it will not accept a deal below 6 per cent.

"This is the last chance in Hesse before we declare the negotiations have failed," said Mr Karl Kronawitter, leader of the regional organisation for IG Metall, said before yesteday's negotiations.

"Only if we get within range of a compromise of something approaching 6 per cent tonight will it still be possible to postpone such a decision by the wage negotiating committee," he said.

Most employers and union members now seem resigned to a strike.

Mr Ferdinand Piëch, chief executive of Audi, the motor manufacturer, and chief executive-elect of Volkswagen, warned that a strike would cost his company 2,000 vehicles and some DM30m (£10.2m) a day.

Already many leading companies have been hit by token strikes, with 100,000 workers taking part in such action yesterday in pursuit of their 9.5 per cent pay claim. The employers have warned that if a full strike is called, they may respond with a lock-out, as they did in 1984.

The engineering talks came amid a growing belief that the ballot of public sector workers on their 5.4 per cent pay deal might actually result in rejection.

Two unions yesterday announced acceptance of the deal – the railway workers and the white-collar union – with low percentages turning out to vote. The biggest union, the ÖTV, has to get more than 50 per cent in favour in its ballot, whose results will be declared today.

Union officials said that a vote against the deal would not automatically mean the resumption of strike action.

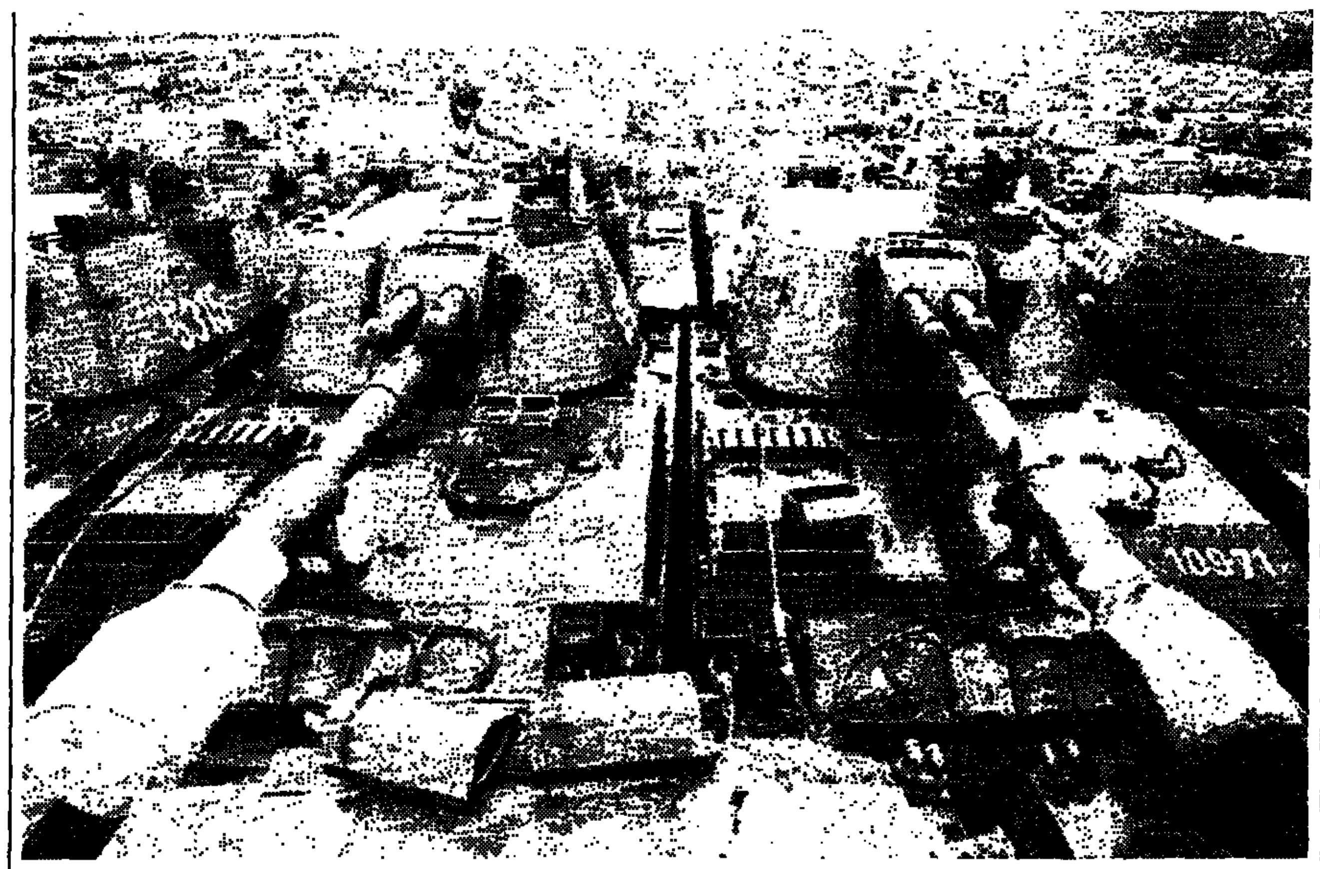
It is hard to see how the workers could down tools again, in public transport, refuse disposal, and other high profile public areas, without a drastic loss in the public support they have enjoyed hitherto.

The railway workers' union GdED announced yesterday that 49.4 per cent of its members had voted for the 5.4 per cent award – hardly a sign of enthusiasm, but well over the 25 per cent required to approve it.

An interim figure for the DAG white-collar workers' union suggested that 39.3 per cent of eligible members had voted in favour, when union rules require 30 per cent support.

However, the ÖTV requires the backing of 50 per cent of those who vote, and close observers were forecasting last night a figure of no more than 40 per cent.

Germany was also hit yesterday by the effect of token strikes in the print industry.


Some 1,300 Soviet-made tanks of the former East German army waiting to be scrapped

Carbon tax means steep cost rises for many enterprises in Europe

By David Lascelles, Resources Editor

YESTERDAY'S decision by the EC Commission to back a carbon tax could lead to big rises in the price of fuels most commonly used by Europe's industry.

But it addresses what is widely seen as the most pressing environmental issue of the day: the growth in "greenhouse gases" which threaten to change the world's climate through global warming.

EC figures show that a $10 tax per barrel-of-oil-equivalent by 2000 would have the biggest impact on industry and power station operators.

They would have to pay 58 per cent more for hard coal, 45 per cent more for heavy fuel oil and 34 per cent more for natural gas.

The prices of petrol and diesel fuel would have to rise by 6 per cent and 11 per cent respectively.

For households, the impact of the tax would be equivalent to a 16 per cent increase in light fuel oil prices, while natural gas prices would rise by 14 per cent.

Although scientists disagree on the scale of the threat, many bodies, including the EC Commission, have adopted a "no regrets" policy of curbing carbon emissions because of the other benefits it brings, such as energy conservation.

The EC has also set itself the target of reducing emissions of greenhouse gases to 1990 levels by the year 2000.

However a big attack on global carbon emissions will need the co-operation of the US which, as the chart shows, is the worst offender among the large industrial nations.

The Bush administration has refused to set specific targets and deadlines, arguing that it is more important to draw up appropriate measures and follow them through.

It also has doubts that the EC can meet the targets it has set itself.

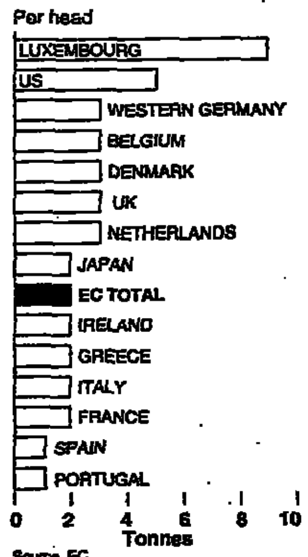
Last week, the US forced a compromise on a proposed treaty on global warming which is to be signed at next month's Earth Summit in Rio.

This will not contain the binding commitments which were originally proposed. Instead, the developed countries will be required to draw up plans to curb emissions.

Yesterday's resolution by the European Commission also requires Japan to back the tax before it can be adopted.

However Japan's record on emissions is among the best of the industrial countries, and so far, Tokyo has shown little enthusiasm for adding a tax to the already long list of regulatory measures it has taken to clean its air.

Carbon emissions



Source: EC

Debts pile up among Russian enterprises

By John Lloyd and Leyla Boulton in Moscow

RUSSIA'S enterprises had piled up Rbs1.43 trillion (million million) in debts to each other and to the banks by May 1, the central bank said yesterday. This sum is greater than the country's gross national product for the first quarter of the year.

Mr Vyacheslav Solovov, vice-chairman of the bank, said inter-enterprise debts were increasing at the rate of Rbs27.5bn a day.

Crisis talks are under way between the government, the central bank and parliament on ways to solve this rapidly gathering crisis – including debt forgiveness and an increase in the budget deficit.

Yesterday the government more than doubled teachers' and doctors' pay after they had threatened to strike for a 10-fold increase.

The two groups are among the poorest in Russia, earning about Rbs700 a month (the minimum wage has just been increased to Rbs900 to help people survive price liberalisation and rapid inflation).

The government also announced plans to levy import taxes of 5-10 per cent to reduce the import bill. They will come into effect in August, and follow a 13 per cent increase in first quarter imports, compared with a year ago. That pushed the balance of payments deficit for the period to $2bn.

Import taxes were suspended in January until June in order to encourage imports so there would be goods on the shelves when the government freed most consumer prices at the start of the year. Mr Pyotr Aven, foreign economic relations minister, told Interfax news agency the government was also considering an extra 28 per cent VAT on imports.

Meanwhile, Mr Georgy Matiukhin, the chairman of the central bank, said the system of trade between the main republics of the former Soviet Union was increasingly breaking down, especially that between Russia and Ukraine.

The twin crises in Russian enterprises and in inter-republican trade are the greatest source of pressure upon the government's reform programme. Already last month, ministers agreed to advance credits worth Rbs200bn to enterprises in order to avoid collapse and a rapid growth in unemployment.

However, the central bank's figures showed that the crisis is mounting much more rapidly than was thought.

Ukraine tells Crimea to end independence bid

By Chrystia Freeland in Kiev

THE UKRAINIAN parliament yesterday tried to brake Crimea's separatist drive by suspending its declaration of independence and planned referendum.

Mr Leonid Kravchuk, the Ukrainian president, warned of "bloodshed" and "a tragedy in relations between Ukraine and Russia" if Crimea's separatist bid was not halted.

Mr Kravchuk and the Ukraine parliament stopped short of dissolving the Crimean parliament and calling new elections but it set May 20 as a deadline for the Crimean legislature to annul its own declaration of independence and revoke plans to hold a referendum on August 2.

The Ukrainian parliament did not specify the measures it would take if Crimea fails to comply, but the parliament did instruct Mr Kravchuk to use "all necessary means" to restore constitutional order in Crimea.

Rebirth of a Leipzig capitalist

David Dodwell on a businessman amid the ex-communist ruins

RICHARD Krätzer turned a cardboard box of tiny plastic lorries on to the table, and handled one fondly: "There's no market for them any more. In 1972, they earned me DM12m a year."

Today, at an age when many would be long retired, Mr Krätzer has taken up the daunting challenge of rebuilding the factory he was forced to sell to the East German government in May 1972.

His company, Uniplast MK, was one of 13,000 firms commandeered by the then communist regime. He is now one of a handful still fit enough to have his factory returned to him. The task is to make something of its ruins.

For Richard Krätzer, it was, literally speaking, ruins: an "accidental" fire during the night before his return to the factory on the outskirts of Leipzig in April 1990 destroyed all stocks, the computer system with all company records, and all invoices, contracts and other important papers. The plastic moulding machines that were unchanged from when he left them 18 years earlier were standing deep in water. It was a month before he could resume any production.

"I have tried to rebuild what I can," he says. Today, those same machines are pressing out simple plastic bottles, and plastic parts such as bottle caps as he mounts a range of makeshift operations to raise funds for a proper new business.

Alongside the half-dozen vacuum-pressing machines is a large room stacked floor-to-ceiling with basic household items such as plastic waste-paper baskets, buckets and draining-racks for dishes – another makeshift operation, this time wholesaling between other east German companies and hardware shops in the Leipzig area.

His company was one of some 13,000 commandeered by the communist regime. He is one of a handful fit enough to have it returned to him

The profits from both activities are intended to fund a DM500,000 (£170,000) investment in what he hopes will be one of two businesses: making vacuum-moulded plastic doors. At present, this business consists of a one-room assembly operation, an outdoor concreted area where the future factory building will be, and a handful of commandeered shipping containers which have proved useful for rainproof storage. He hopes to start making doors this month.

Apart from illustrating the grim determination needed of eastern Germany's former capitalists – and perhaps of those starting from scratch today – Richard Krätzer provides potent evidence of the fragile foundations of the industrial rebirth of Germany's eastern states. He has been forced to scratch around for equipment, funds, partners and markets. None has come easily.

Funds have come not from the banking sector, but from the remnants of DM1.6m paid to Mr Krätzer in 1972 by the communists for his factory. After they had clawed DM1m for various "expenses" linked with the takeover of the factory, the communists had left him with DM300,000 in a non-interest-bearing bank account.

After knocking on doors across western Germany, he has found two potential partners in Europe. Metaku in Germany have agreed the joint venture making plastic doors for the east European market. The local construction boom expected in coming years from regeneration funds is forecast to create strong demand for house doors, and Metaku's plastic products cost barely half the price of a wooden door.

Faber Jalousie in Denmark have given him a licence to make their Solarflor vertical blinds. One virtue of the Faber agreement is that a buy-back arrangement has saved Mr Krätzer the daunting task of finding his own market.

"Finding a market in eastern Europe is very difficult at present. There's no money," he says: "But in one or two years, with the rouble and other east European currencies more settled, then I think we can do good business. Even now, I'm making a profit – though all the money is going back into investment in new machinery."

'There's no money. But in one or two years, with the rouble and other east European currencies more settled, then I think we can do good business.'

Plastic doors and window blinds may not have the romantic appeal of miniature plastic lorries, but after 20 lost years, it is not romance that Richard Krätzer is looking for.

France clears its first Maastricht hurdle

By Ian Davidson in Paris

FRENCH ratification of the Maastricht treaty on European union comfortably passed its first hurdle yesterday, with a large government majority in the national assembly in favour of the corresponding revision of the country's constitution.

The legislation must now go through the Senate, before a final vote in a joint session of parliament. Only then will France be able to ratify the treaty, either in a simple parliamentary law or by referendum.

The national assembly debate dragged on all night as deputies ploughed through 80 amendments. The final vote in mid-morning yesterday was 398-77, with 99 abstentions. This was a significantly bigger majority than might have been predicted, given the vociferous opposition from a minority of right-wing Gaullists and other nationalists.

Last week, Mr Philippe Séguin, a nationalist Gaullist, mustered the support of 101 deputies, including 58 Gaullists, in a move to reject the treaty in its entirety. In yesterday's vote, many Gaullists changed their minds, and only 31 voted against the constitutional revision.

The government may have owed its enlarged majority to its acceptance of four opposition amendments. The most significant will give parliament a greater involvement in debating Community legislation; other amendments are purely symbolic, like the one declaring French to be the language of the republic.

The government also assuaged some Gaullist fears by declaring that France's right to impose a veto in defence of vital national interests, by virtue of the so-called Luxembourg compromise, was just as great as ever. In reality, this right of veto is purely imaginary.

However, it ignored Gaullist protests against the Maastricht provision giving the vote in local elections to people from other EC countries.

Yesterday's result will restore the government's confidence that it will secure a majority in the Senate and the minimum three-fifths majority in the joint session, which which be held in Versailles.

The debate provided a further bonus for the government in its vivid demonstration of the acute divisions between the conservative opposition parties over the EC. There is a deep gulf between the Gaullists who are allergic to anything which smacks of federalism and the centre-right UDF and centrist UDC groups, which are firmly committed to the principle of European integration.

Gaullists are further split between those who are reticent about the Community and those who are downright hostile, with only a small minority in favour.

Havel tries to keep the family together

Ariane Genillard and Anthony Robinson set the scene for the Czechoslovak election

THE FUTURE of Czechoslovakia's economic reforms and the fate of the Czech and Slovak federal state will be the main issues of debate in a hard fought general election campaign involving more than 40 political parties which began yesterday.

The opening shot was fired by Mr Vaclav Havel, president of the Czech and Slovak Federal Republic. Addressing the nation from Bratislava, the Slovak capital, he warned against "unconsidered and dangerous attempts" to break up the country's fragile federation.

Moves to break up the union and reconstitute it as "a vague dualist union" would lead to "a chaotic break-up of the state which would exact as high a price as similar break-ups in Yugoslavia or the former Soviet Union."

The presidential warning was directed mainly at nationalists striving for greater autonomy for the Slovak republic, which holds a third of the country's 16m population.

Mr Vladimir Meciar, whose Movement for a Democratic Slovakia is expected to re-emerge as the largest party in Slovakia after the June 5 elections, has promised, however, that he would adopt a new constitution and declare Slovak sovereignty if his party wins.

President Vaclav Havel (left) warns about break-up; Mr Vladimir Meciar (centre) wants Slovak sovereignty; Mr Vaclav Klaus favours a compromise

Polls place Mr Meciar well above other Slovak politicians, with 34 per cent cent support. The remaining votes are likely to be split between a plethora of parties including the governing Christian Democrats led by Mr Jan Czarnogorsky, the former Communists, now renamed the Party of the Democratic Left, and a new Social Democrat party. This is led by Mr Alexander Dubcek, hero and then victim of the 1968 "Prague Spring" attempt to create "socialism with a human face" which was then crushed by Soviet tanks.

Last week an attempt to establish a new Slovak constitution failed to achieve the required 60 per cent majority in the Slovak parliament. But the strength of nationalist feeling was shown by the over 50 per cent vote in favour of a move which, had it succeeded, would have violated the federal constitution.

Most parties in the more prosperous Czech republic have voiced support for the federation. Here the most popular party is the Civic Democratic Party led by Mr Vaclav Klaus, the federal finance minister, which the polls calculate now attracts 20 per cent of the vote in the Czech lands.

His right-wing, free market party, whose privatisation and other economic policies are modelled closely on those first introduced by Mrs Margaret Thatcher, former leader of Britain's Conservatives, is one of the few to be represented in both the Czech lands and Slovakia.

As in Poland, however, no party is expected to win an overall majority. The combination of proportional representation and many contesting parties, is expected to produce fragmented parliaments at both republican and federal levels and could lead to complex negotiations to put together coalition governments.

Mr Klaus, who already dominates economic policy-making also has strong ideas about the future constitutional shape of the country. He proposes that a new federal system should be devised after the elections to devolve greater powers to the republics. The federal government would be reduced to the core functions of finance, defence and foreign affairs.

This creates the possibility of a compromise which would satisfy both moderate Slovak nationalists and those in both republics who chafe at the unnecessary expense and duplication under the present Communist-imposed system of republican and federal governments.

Increasingly, however, some Czech politicians, too, have spoken about the possibility of a divorce. But, as President Havel repeated in his latest speech, this could only be achieved by means of a referendum, and according to opinion polls, the majority of Czech and Slovaks still prefer to live in a common state.

Industry assails 'flaws' in treaty

By Robert Rice, Legal Correspondent, in Brussels

FT THE SOCIAL chapter of the European Community's Maastricht treaty is badly flawed, according to Unice, the European industrial and employers' confederation. Mr Zygmunt Tyszkiewicz, the organisation's secretary general, told an FT conference on the impact of EC law and policy that allowing Britain to opt out of the social chapter had set a precedent which could lead to abandonment of the "one Community" principle.

However, what concerns Unice more is the extension of qualified majority voting to issues involving working conditions, and information and consultation processes. Six member states acting together would be enough to push a measure through, given the weighted voting system.

"You will have six states determining social policy for 18 countries of Europe – a long way from the requirement for greater democracy," said Mr Tyszkiewicz.

The problem was made worse because some EC governments were unable to stand firm, even against their better judgment, in the social field. Unice cited the working time directive, which it said many governments had described as expensive and hindering flexible use of working time.

The organisation expressed its pleasure with some aspects of the new social chapter, such as the statutory obligation for the Commission to consult the social partners (employers and unions) on social policy measures, but Mr Tyszkiewicz warned the Commission against attempting to legislate where it was not satisfied with an agreement negotiated by the social partners.

"We cannot do the job with the Commission breathing down our necks. That must be made plain," he said.

Dr Claus-Dieter Ehlermann, director general for competition at the Commission, told the conference that "a reinforced competition policy" was needed to underpin the creation of the internal market, but there would be greater emphasis on curbing state aid and on deregulation.

In the telecommunications field, a review of the voice monopoly would be undertaken this year. "The Commission cannot ignore the fact that [telephone] calls between member states are two to three times more expensive than the equivalent distance calls inside member states. This constitutes a surcharge on trade and a block to the internal market process," he said.

Press freedom call to CSCE meeting

INTERNATIONAL news organisations and Unesco told the Conference on Security and Co-operation in Europe yesterday that its promotion of press freedom in Europe could affect other parts of the world, AP reports from Helsinki.

"Everyone has the right to freedom of opinion and expression. ... without interference. The CSCE can make these hopes a reality," said Mr Leonard Marks of the Washington-based World Press Freedom Committee. "Established democracies now have an unparalleled opportunity to give help and guidance to the new democracies as they build their new highways of freedom," he said. The committee is a co-ordinating group of national and international news organisations.

Mr Marks urged delegates in a plenary session of the 52-nation security and human rights conference to adopt a 10-point charter rejecting censorship and other restrictions on information and the movement of journalists. "If a democracy is to be firmly rooted, there must be no law infringing the freedom of the press," he said.

The charter, approved in January 1987 at a London conference on censorship problems, outlines principles designed to permit free, independent news media to function effectively.

It says journalists should be free to travel over national borders and their visa applications should "be handled promptly".

Mr Frederico Mayor, Unesco's director-general, said in a message read to the delegates by an aide that freedom of the press is one of the most essential components of a democratic society.

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Ramos closes on rival in Philippine election

By Victor Mallet in Manila

Ramos (left) overtakes Santiago at early stage

MR FIDEL RAMOS, former defence chief in the Philippines, last night caught up with his main rival, Mrs Miriam Defensor Santiago, in the race for the presidency, according to the latest unofficial counts based on a sixth of the votes cast in the election on Monday.

Earlier, Mrs Santiago, a lawyer and anti-corruption campaigner, had claimed victory but her opponents had said her claim was premature.

Quoting Winston Churchill, the outspoken Mrs Santiago said she would be magnanimous in victory.

"Certain losers among the presidential candidates might try to cheat, and may even have started doing so," said Mrs Santiago, who hopes to undermine the country's oligarchy of influential families, "but the youth and all the Filipinos who helped me to win will not allow the triumph of evil".

Mr Ramos had said yesterday afternoon that he expected the rankings to change in his favour as votes came in from the provinces following the presidential, congressional and local elections.

The lengthy manual process of counting ballot papers – each with up to 44 handwritten names – from as many as 27m voters has already given rise to several disputes in local contests, but businessmen have reacted favourably to the relatively peaceful poll.

Both Mr Ramos and Mrs Santiago are regarded as candidates who would encourage private enterprise and foreign investment, and the twin stock markets of Manila and Makati rose more than 7 per cent yesterday from their levels on Friday, after holidays on Monday and Tuesday. The Manila Stock Exchange composite index rose 93.02 points to 1,328.04.

A glance at the official table of comparative statistics on violent incidents in recent elections helps to explain the euphoria.

Between January 12 and yesterday morning, there were only 12 "liquidations" (assassinations) throughout the islands, compared to 95 in the chaotic 1986 presidential elections and 93 in the local elections of 1988.

Sceptics, however, have noted that the election cannot be said to be finished until the results are clear. They have expressed fears about the destabilising effect of the long count.

In an attempt to defuse the tension, the Commission on Elections yesterday warned candidates against making premature victory claims and announced an agreement with television and radio stations under which all unofficial counts – except for one authorised by the Commission – would cease from noon today.

Bank chief resigns in election row

By Jose Galang in Manila

MR Edgardo Espiritu, president and vice-chairman of the state-controlled Philippine National Bank (PNB), the country's largest commercial bank, yesterday resigned after a pre-election row over the cashing of government cheques issued to local government officials around the country.

The resignation was immediately accepted by President Corazon Aquino who was expected to announce the appointment of Mr Federico Pascual, the present PNB vice-president, as officer-in-charge until bank shareholders meet early next month.

Mr Espiritu was caught in the political flak last week when he told PNB branch managers not to encash cheques totalling 980m pesos ($37m) that the government had given to 42,000 officials.

The timing of the cheques' release was widely interpreted as a move to influence last Monday's general election, although the government had argued that these were regular allotments from tax collections.

Mr Espiritu is a known supporter of Mr Ramon Mitra, presidential candidate of the the Democratic Filipino Struggle party while Mrs Aquino backs Mr Fidel Ramos, the former defence secretary.

Malawi aid tied to human rights

By William Dawkins in Paris

WESTERN aid donors yesterday told Malawi that it will get more development money from them only if it improves its human rights record.

The troubled southern African state came away from a World Bank-sponsored meeting with nothing towards the $74m (£42m) of development assistance it needs this year and next.

They were ready to meet again within six months if Malawi could show "substantive progress" in basic freedoms and human rights, said the donors' communiqué.

Donors pledged $170m of food aid for victims of the drought which has hit Malawi and its neighbours.

This was $100m less than needed, but officials stressed the shortfall on humanitarian, as opposed to development, aid had nothing to do with human rights and that drought assistance would be handed out as required through a plan for the whole region.

Malawi has worried donors because of President Hastings Kamuzu Banda's continued intolerance of any opposition, and the recent outbreak of industrial unrest and looting in which 38 people were reported killed. Unrest has spread this week to tea plantations.

Tea is Malawi's largest export after tobacco.

Donors express deep concern about lack of progress in basic freedoms and human rights

Mr Louis Chimango, Malawi's finance minister, said in Paris the government would allow the Red Cross to inspect prisons, and give a court trial to Mr Chakufwa Chihana, a trade unionist arrested last month after calling for multi-party elections.

Beyond that, Mr Chimango refused to give further details of how Malawi planned to satisfy donors and said he had no idea how to fund the aid shortfall.

Three international labour leaders were allowed to visit Mr Chihana yesterday.

The Paris move is the latest sign of a recent trend among World Bank donors to use aid to apply pressure on African governments to treat their citizens in a fair and reasonable manner, underlined last November when they told Kenya that new aid would be conditional on political and economic reforms there.

"Donors continued to express deep concern about the lack of progress in the area of basic freedoms and human rights," said the communiqué.

Africa pledge by developed nations

LEADING industrialised nations assured Africa yesterday they remained committed to rescuing its fragile economies, despite increased competition for aid due to changes in eastern Europe and the former Soviet bloc, Reuter reports from Dakar.

The Netherlands minister for development cooperation, Mr Jan Pronx, told the annual meeting of the African Development Bank it was difficult to see where resources required to assist growth and attack poverty would come from, without more effective rescheduling of debt.

"In the view of the Netherlands, we still have to strive for a write-off debt of all least-developed countries," he said.

Representatives of other industrialised states stopped short of endorsing a need for new debt relief schemes, but chorused their intention to stand by Africa.

"My country is committed to remaining engaged in this continent," declared Mr Olin Wethington, assistant secretary for international affairs at the US Treasury.

Mr Alhaji Abubakar Alhaji, Nigeria's finance minister, said debt relief now provided "a glimmer of hope", but Africa's economic plight was alarming.

He proposed that concessions which multilateral aid agencies allowed to the poorest countries should be extended to the less well-off, middle-income states.

But Mr Wethington told a news conference that Washington was reluctant at this stage to agree to such a proposal.

He outlined at the meeting a two-pronged approach by his country in its economic relations with Africa in the post-Cold War world.

While helping to meet social and economic needs, it would stress the value of democracy and market-based economies, and favour changes to promote the private sector.

"The long-term future lies with encouraging private enterprise," he told reporters. "The private capital markets will be able, in the long term, to provide resources that will exceed those available through official channels."

Mr Alhaji urged industrial countries to open their markets. "At present, excessive subsidies to agricultural products of the developed economies create the double-edged sword which keeps our farm products out of their markets and, at the same time, depresses markets for our products," the minister said.

Israel angry over US refugee stand

By Hugh Carnegy in Jerusalem

ISRAEL yesterday reacted sharply to a statement by the US that Washington supported a 1948 UN resolution recognising the right of Palestinian refugees to return to their original homes, a proposition that all mainstream Israeli parties reject as a threat to the existence of the Jewish state.

Ms Margaret Tutwiler, state department spokeswoman, following a call by Jerusalem to clarify her statement, said yesterday that the issues raised in the resolution "can only be resolved through a process of direct negotiations among the parties themselves".

The exchange came as talks were due to get under way in Ottawa yesterday on the plight of Palestinian refugees convened as part of the multilateral phase of the Middle East peace process.

Israel refused to attend the talks because representatives of the Palestinian exiles were invited as well as residents of the occupied territories.

They declared their intention of having the issue of their right to return put on the agenda.

Washington advised the Palestinians not to raise the issue but was clearly irritated by the Israeli stance.

Ms Tutwiler said late on Tuesday that the US continued to support Resolution 194, which recognises the right to return home, or to compensation for losses, for Palestinians who fled or were forced from their homes in the 1948 Arab-Israeli war that followed establishment of the state of Israel.

Solh becomes Lebanon's new PM

By Lara Marlowe in Beirut

MR Rashid Solh, a 66-year-old Sunni Moslem parliamentary deputy and former prime minister, became Lebanon's new premier yesterday, a week after his predecessor resigned in the wake of nationwide anti-government riots.

The Lebanese pound rose to L£1,425 to the dollar on the strength of the news, compared with a record low of L£2,100 last week.

The formation of a proposed 24-member cabinet is still being negotiated by representatives of Lebanon's religious communities. The 1989 Taif peace accords said that political office should progressively be dissociated from religious affiliation, but the quarrel over cabinet seats shows how deeply rooted the sectarian system is.

Maronite Phalangists who have split between the Lebanese Forces militia led by Dr Samir Geagea and the Phalangist party led by Mr George Saadeh are demanding more positions in the next government to enable them to block decisions by majority pro-Syrian ministers. The defence, interior and foreign affairs portfolios are likely to stay unchanged with former militia leaders again in government.

New Lebanese PM Rashid Solh (right) enters the presidential palace in Beirut yesterday

Mr Solh is the fourth member of a prominent Beirut Sunni family to become prime minister. He has been a deputy since 1964 and served as prime minister for seven months from 1974, but his government fell when a brawl broke out in parliament at the beginning of the civil war in April 1975. His main task will be to oversee parliamentary elections scheduled for this summer.

Indonesian opposition urges probe into Suharto's sons

By William Keeling in Jakarta

INDONESIAN opposition groups have demanded an investigation into the business interests of President Suharto's children as the first week of a general election campaign nears its close.

Mr Soerjadi, chairman of the Indonesian Democratic party, one of two opposition parties, has condemned a monopoly in trading in cloves granted last year to BPPC, a private company headed by Mr Hutomo Mandala Putra, Mr Suharto's youngest son.

Cloves are the key ingredient in Indonesia's fragrant *kretek* cigarettes. The monopoly had a projected turnover of about Rp1,000bn (£275m) last year but Mr Putra has said BPPC was unable to service Rp759bn in soft loans from Bank Indonesia, the central bank.

Mr Soerjadi also criticised a monopoly in orange trade in the Kalimantan region, granted to a subsidiary of a group headed by Mr Bambang Trihatmodjo, Mr Suharto's second son.

The presidential family was also attacked earlier in the week by Mr Deliar Noor, a member of the Forum for the Purification of Democracy, a leading dissident group which includes retired generals and religious leaders.

Mr Noor accused Mr Suharto of "nepotism" and described the business interests of his children as "an abuse of power".

The governing Golkar party, however, is likely to retain power in the June 9 election with a large majority, bolstered by its 20-year record of economic growth averaging more than over 6 per cent a year.

India says US space export ban a commercial decision

By K K Sharma in New Delhi

INDIA yesterday alleged that commercial considerations were behind a US decision to ban exports to the Indian Space Research Organisation (Isro) and "to thwart India from growing into an important economic entity in the international space market."

The allegation was made by Prof U.R. Rao, Isro chairman. He claimed the US was aware of India's low launch costs, saying: "We are going to be an important economic entity in the multi-billion dollar space market. Therefore, reasons for the two-year ban on exports to India are totally commercial."

Prof Rao said the US sanctions would delay Isro's projects and would force it to exceed its budget.

India's satellite development programme could be crippled by the ban. Although India has made limited progress in rocket technology – the purchase of which from Russia attracted US sanctions against India and Russia – its satelite programme is progressing well and it has many potential buyers. But satellite development depends heavily on US supplies of components now banned. Electronic components required for satellites form a big share of imports from the US. It is not clear, however, whether joint ventures between Indian and US companies involved in supply of such components are covered by the ban.

The satellite programme, rather than India's launch projects, is mainly affected by the U.S.

Iran pulls out the biggest plum from Afghan pie

Tehran has won influence via the Persian-speakers who now control Kabul, writes **Colin Barraclough**

AS THE dust begins to settle over Kabul, the foreign players are counting their takings. Many countries have stuck their fingers into the Afghan pie during 14 years of civil war, but none has emerged with as much to show as Iran.

Iran backed Afghanistan's Shia parties throughout the Afghan civil war, hosting the leaders and giving shelter to 1m refugees. It supplied arms to Shia mujahideen groups, vying with Sunni Saudi Arabia and Pakistan for control of the *jihad* (holy war).

However, with the fall of the Soviet-backed regime last month, Tehran's primary aim in Afghanistan shifted. It turned from promoting Shia Islamic revolution to the promotion of Persian culture. As Afghanistan began to splinter along ethnic lines in the post-communist vacuum Iran placed its weight firmly behind the Persian-speaking Tajiks and Uzbeks who control Kabul.

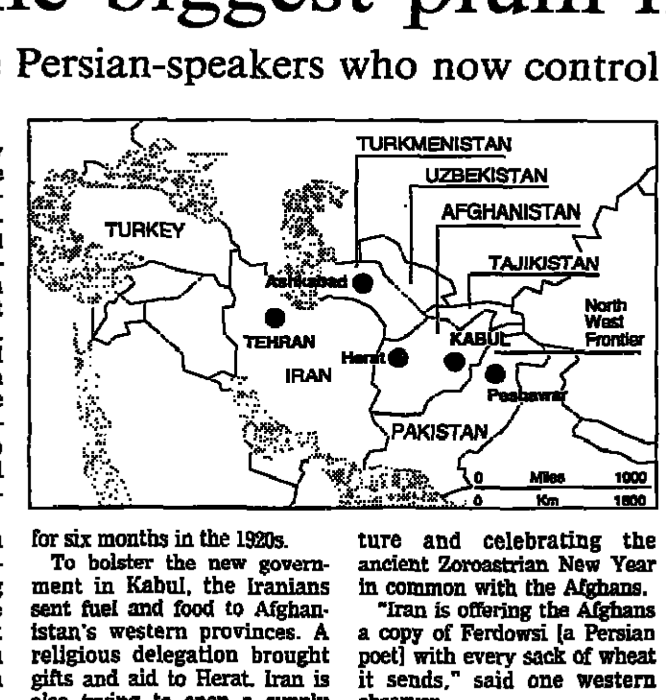
"The Iranians support [defence minister Ahmad Shah] Masood," said a moderate Afghan leader in Peshawar. "They think Masood will take care of their interests because he speaks their language."

Mr Masood is not the only Persian speaker in Kabul. The ex-government militia controlling Kabul's streets are Persian-speaking Uzbeks. General Asif Dilawar, appointed commander-in-chief of the Afghan army forces by Mr Masood last week, is also a Persian speaker.

Furthermore, Tehran hosted a meeting this year with Afghan president-designate Burhanuddin Rabbani and representatives from Tajikistan to promote Persian-based cultural links between Iran, Afghanistan and Tajikistan.

With most power centres in Kabul filled by Persian speakers, the Iranians are sitting pretty. "I'd like to say we've done very well out of the last 14 years," said Iran's consul in Peshawar, Mr Hamid Reza Sherkhodai.

A Persian-influenced government in Kabul is indeed a rare achievement. Afghanistan has been ruled almost continuously by the majority Pushtun tribe, who are spread throughout eastern Afghanistan and western Pakistan. In fact, only once has a non-Pushtun controlled Kabul, when Tajik waterseller Bacha Siqa ruled for six months in the 1920s.



To bolster the new government in Kabul, the Iranians sent fuel and food to Afghanistan's western provinces. A religious delegation brought gifts and aid to Herat. Iran is also trying to open a supply route all the way to Kabul.

The Iranians bring to the Afghans not only aid but a cultural influence. "We have certain cultural roots with these people," said Mr Sherkhodai. "We have a common language and common religion."

Iran is encouraging these links, offering to fund academic study of Persian literature and celebrating the ancient Zoroastrian New Year in common with the Afghans.

"Iran is offering the Afghans a copy of Ferdowsi [a Persian poet] with every sack of wheat it sends," said one western observer.

Of course, Tehran has not abandoned the Shia parties entirely. It continues to back the Shia Hazara tribe in Afghanistan and provides moral and financial support to Shia mujahideen group Hezbe Wahdat and pressure groups such as the TNFJ in Pakistan.

But Iranian hardliners elected in the fiery last days of Iran's war with Iraq who might have forced these groups higher up the Iranian agenda have found their influence waning in Tehran. President Rafsanjani's reformist supporters have just won a landslide victory in parliamentary elections characterised by an electorate more concerned with economic well-being than ideological purity.

At the heart of Iran's acceptance of the status quo in Kabul is a fear of the alternative. Gulbuddin Hekmatyar, radical Pushtun and main recipient of Pakistani and US military assistance for the last decade, leads an informal coalition of parties opposed to the Kabul government.

As the most powerful leader outside Kabul, Mr Hekmatyar would stand to take over the mantle if Kabul's new government fell. Tehran fears that Mr Hekmatyar, as a Pushtun, would favour Pakistani interests over Iran's.

Iran is embroiled in tough competition with Pakistan and Turkey over the re-opening of trade routes with land-locked central Asia. Afghanistan borders three central Asian states of the former Soviet Union so any significant trade depends on stability in Kabul.

In April, Iran announced the start of a new railway line from Turkmenistan to Iran's southern coast. It agreed to provide oil pipelines from Tajikistan and Turkmenistan through to Turkey to the west.

And this week it joined an agreement to re-open the east-west silk road across Asia.

Pakistan, meanwhile, is planning an Export Processing Zone in its North West Frontier Province bordering Afghanistan, providing 50 per cent relief on rail freight, duty-free import of raw material and reduced duty on exports.

Iran's influence on Kabul is already bearing fruit. Iranian official sources said Kabul had this week ordered a significant supply of oil from Iran.

A quick settlement in Kabul would also rid Iran of the financial burden of supporting refugees. With its inflation conservatively estimated at 30 per cent, and imports nearing an all-time high at $17bn, Iran badly needs to patch its economy together.

Turkmens in trade deal with Iran, Page 7

NEWS IN BRIEF

Bahrain to change commercial law

BAHRAIN is planning big changes in commercial laws which have been in effect for nearly two decades as part of wide-ranging plans to revive its economy, Reuter reports from Bahrain.

Mr Habib Kassem, commerce and agriculture minister, said yesterday the laws – which will alter the rigid relationship between foreign companies and local agents – would be introduced by the end of May. He told the Gulf Daily News the changes would address complaints from the international business community and promote free competition.

At present, only one authorised trader in Bahrain has the monopoly of distributing any foreign product and the contract drawn up between the two parties is unalterable.

Bahrain's powerful business community has been resisting proposals to change the law.

Bahrain last year broke with long-standing tradition by issuing laws that would allow wholly foreign-owned companies to operate in the country providing they made it a regional base.

It is also planning to pass laws which would allow joint public stock companies to issue debt securities which would be traded by foreigners as well as Bahrainis.

Commodity prices condemned

A steady fall in export prices for commodities is punishing people who are "already on the margins of a decent human existence," according the Rev Charles Elliott, one of the UK's leading development economists and former head of Christian Aid, writes David Dodwell, World Trade Editor.

In a speech to be given in London last night marking the 50th anniversary of Oxfam, the UK aid organisation, Mr Elliott argued that the international commodity price system "has been a powerful process whereby wealth and income have been transferred from commodity producers to commodity importers/manufacturing exporters".

He said the import purchasing power of developing countries had fallen by 2 per cent a year since 1950 as a result of this process.

Kabul welcomes Russian minister

Mr Andrei Kozyrev, the Russian foreign minister, arrived in Kabul yesterday on a mission intended to help heal the wounds of Afghanistan's 14-year war, Reuter reports from Kabul. He was greeted by representatives of the mujahideen who fought Soviet troops for a decade and congratulated them on throwing off "communist totalitarianism" by toppling the once Soviet-backed government of president Najibullah last month.

He made a plea for the release of the last Russian prisoners of war believed to be held by Afghan guerrilla groups since Soviet troops withdrew in 1989.

Later he won a promise that one Soviet prisoner-of-war would be able to leave with him for Moscow today. The prisoner was not identified.

Papua troops on Bougainville

Papua New Guinea (PNG) said yesterday its troops had landed in the south of the secessionist island of Bougainville for the first time since the national army and police withdrew in 1990, Kevin Brown reports from Sydney.

Mr Rabbie Namaliu, prime minister, said 15 soldiers landed at the village of Siwai on Saturday and set up a base in the area. Mr Namalie said a further 60 troops have been stationed on a nearby island.

Mr Namaliu said the troops were despatched in response to requests from local chiefs and village leaders. He said the leaders feared for their safety following executions carried out earlier this year by the secessionist Bougainville Revolutionary Army.

Nigerian students on rampage

Nigerian students, angered by chronic fuel shortages, smashed cars during a rampage in a crowded, working-class area of Lagos yesterday, Reuter reports from Lagos.

There were no immediate reports of clashes with riot police, who took up positions near Lagos University and in other areas late on Tuesday after student leaders called for two days of protests against the fuel shortage in the oil-producing country and to air other grievances.

Other witnesses said police turned back scores of vehicles from Oshodi. Some drivers, who made it through the area, had green leaves on their cars to show solidarity with the students.

Defence Headquarters, quoted by state radio, ordered special border patrols to stop smuggling, escorts for tankers and the immediate closure of all petrol stations within 25km (16 miles) of Nigeria's land frontiers.

Iraq assails Kurdish election

Iraq yesterday denounced as illegal next Sunday's elections in rebel-held Kurdistan but ruled out the use of force to derail them, Reuter reports from Baghdad.

Mr Mehdi Saleh, speaker of the National Assembly, answered "I do not think so" when asked by Reuters whether Iraq intended to disrupt the elections by military or other means.

"For the simple reason, we are in dialogue with the Kurdistan Front. True, this dialogue has stopped but it is not severed."

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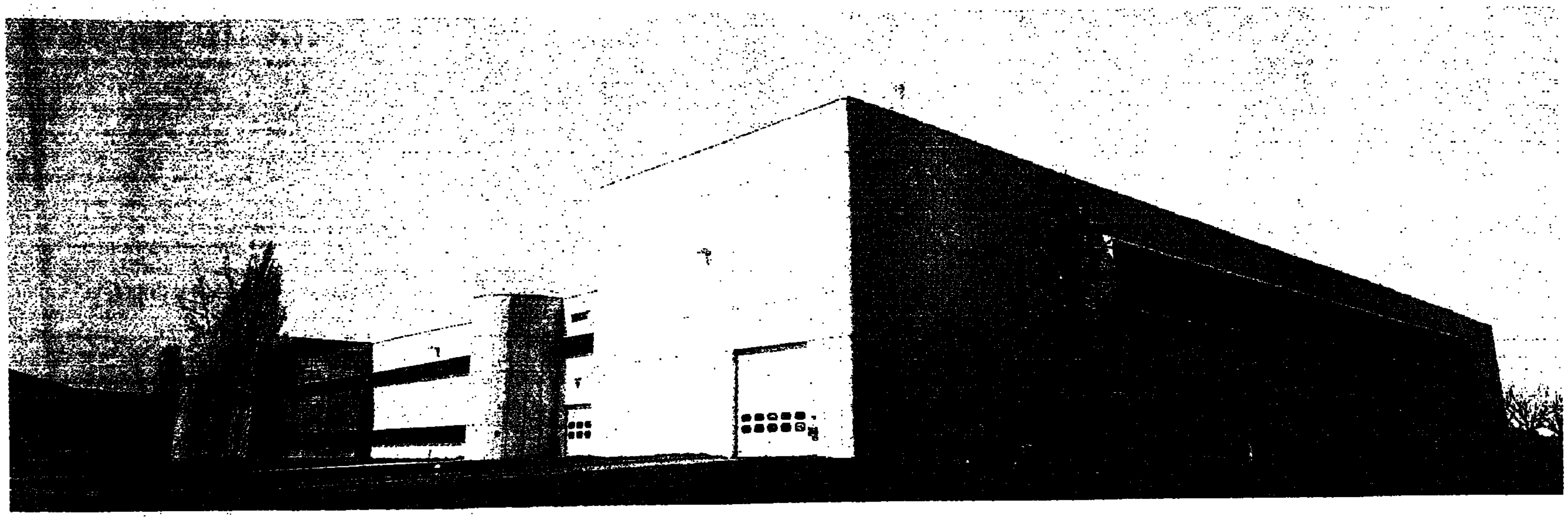

The grassroots of global success

The setting up of Ricoh's new thermal paper factory at Colmar in the Alsace can be seen as a case study in successful 'localisation'. The challenge was to preserve Colmar's rich cultural heritage and to win the confidence and support of the local community while constructing the most modern thermal paper plant in Europe

THIS week Ricoh, the International Office Automation group, opened Europe's most advanced thermal paper factory in France. The new plant is not only the most modern of its type in Europe, it also establishes Ricoh as the only company in the world with thermal paper plants in North America, Europe and Japan.

The new plant, near Colmar in the picturesque Alsace region, will allow Ricoh to substitute previously imported products with French-made thermal paper, and it provides further evidence of the company's commitment to Europe and the importance it places in improving its service to customers in the European market.

Before the factory opened Ricoh held "open day" for the public. The company expected a couple of thousand at most to turn up. Instead some 10,000 to 11,000 people from Colmar and the surrounding towns and villages flocked to Ricoh's landscaped site in the shadow of the Vosges mountains.

Families, courting couples and children with grandparents turned Ricoh's open day into a great Sunday outing. They toured the brand-new thermal paper factory, which was officially opened on Tuesday this week and strolled alongside the production lines where Ricoh's copiers and faxes are assembled by French locals for sale throughout Europe.

They saw where rollers for copying machines (Ricoh has the largest installed base of copying machines in Japan) are meticulously machined, painted and polished. They quizzed Ricoh's staff, most of whom grew up in the region, with hundreds of queries — especially about the new thermal paper plant which many have watched rise over the last year or so in the fields beside the existing factory, which opened in 1988.

The crowds wandered around the special "memory garden" of Neolithic and Iron Age remains which Ricoh unearthed when the company started to build its first factory in the late 1980s. Ricoh created the garden as a tribute to the ancient roots of a region which is one of the great crossroads of Europe.

Considering the population of Colmar, with its half-timbered medieval houses and majestic cathedral, is only 60,000, the turnout bore remarkable witness to the impact which Ricoh has made in such a short time in this corner of north eastern France.

Most modern paper format

The first reels of thermal paper — used in fax machines and in hundreds of applications like for instance rail tickets, aircraft boarding cards and points of sale labels — which came off the production line this week mark a significant step forward in Ricoh's integration within Europe.

The thermal paper plant is the latest step in Ricoh's European strategy, which began when the group established its first subsidiary in Europe in 1963. Today, from its Dutch headquarters in Amstelveen, Ricoh Europe BV co-ordinates its seven sales subsidiaries and a financial subsidiary as well as the Colmar factory and its sister plant in Telford, in England's West Midlands.

The 150 jobs created by the Colmar thermal paper plant brings the total employed by Ricoh throughout Europe to around 2,400.

One reason why Ricoh's new factory has attracted so much local attention is because Ricoh has always placed great importance in working closely with the local communities in which it has established business. This is in spite of the fact that Ricoh is now a global group, employing 44,500 people in 127 subsidiaries and 27 modern production facilities worldwide.

"It is essential to understand the needs of the local community and for the local community to understand the philosophy and aims of our company," says Koji Sawa, President and Director General of Ricoh Industrie France.

Koji Sawa found himself facing an early test of this philosophy in his very first days at Colmar.

Local heritage

No sooner had construction work started on the first factory in 1987 than 7,000-year-old remains, rich in archaeological interest, were uncovered. Not only were Neolithic burial sites dating from 5,000 BC unearthed but also some 3,000-year old Celtic coins were found nearby, while Roman remains provided further proof of the site's historic past. Construction work had to stop immediately. A clash between cultural heritage and industrial progress could easily have occurred.

Instead, Ricoh moved quickly to quieten local fears. For Sawa the incident had a hidden bonus:

"Our archaeological discovery meant that my first contact with the local community was not about business at all. Instead we discussed how to excavate and preserve these riches."

This early lesson in working with the local community was to prove valuable when Ricoh wanted to build its new thermal paper plant. Obviously, Ricoh's go-ahead for the new plant reflected its satisfaction with the original decision to settle in Colmar, partly because the history of Alsace in the heart of Europe meant that its people spoke French and German with the young, in particular, speaking English as well. Men and women from Alsace also had a reputation for open-mindness and willingness to adapt.

"Ricoh's decision to push ahead with the thermal paper plant was seen as a vote of confidence in the region," says Hubert Schwanger, the locally-born plant manager of Ricoh Industrie France, who has been heavily involved during the last two years in the planning and implementation of the new factory.

Protecting the environment

But first, Ricoh had to overcome the environmental fears in the public mind which are associated with the development of any new plant today.

Ricoh set out to quieten such anxieties in a number of ways. First, it made sure that its plans were freely available to be seen and discussed by the public. Second, it took care that all its designs were in strict accordance with the DRIRE, the local environmental control agency. Third, it involved the relevant local authorities in its deliberations and explored with them all the various environmental aspects — noise, water run-off, subterranean water analysis, waste disposal, potential atmospheric pollution risks, etc.

But Ricoh went even further. Where the company felt that existing regulations were too vague or unclear it bent over backwards to ensure that its own environmental measures were as rigorous and exact as possible.

Take waste disposal, for example. Ricoh ruled out sending any waste water, despite being purified to its own satisfaction, back into the system. Instead the company spent FFr7m (roughly £700,000) installing a sophisticated water treatment plant which evaporates all remaining water and ensures that any waste material left over can be taken away and safely disposed of.

Ricoh held its highly successful "Open Day" so that the local people could see for themselves what Ricoh was doing to ensure that the new factory could play its maximum part in the community, right down to the landscaping and planting of mature trees in the land around the new plant.

Ricoh directors, French officials and mayors of the surrounding towns at the official opening of the new factory at Colmar

"I liken the process to seeing an elephant for the first time," says Koji Sawa. "People can try to explain to you what an elephant is like — but only when you see it with your own eyes do you realise what they have been trying to describe. So, we can tell people what we are doing, what we are making and so on . . . but only when they can see our factory, our products and everyone who works here they can understand what we are trying to do in our business and with our lives."

Feeding the European market

By the time the new plant is fully operational it will be capable of producing 30,000 tonnes of thermal paper a year to supply the rapidly growing European market for such products. Sales of treated paper for thermal labels are growing around 20 per cent a year, reflecting the rising reliance on point-of-sales systems and innovative uses from the retail, aerospace and automotive industries. Increasing use of facsimile machines is also creating a growing demand for thermal fax paper.

The formal opening ceremony on Tuesday provided the local mayors of the surrounding towns and other dignitaries with the opportunity to witness the investment in time, money, effort and technology which can turn giant reels of raw paper up to 15,000 metres long into specially treated rolls as small as 15 metres in length. These are for use in Ricoh's sophisticated mobile fax which has won its place in the *Guinness Book of Records* as the smallest fax of its type in the world.

Itsuo Kawaji, managing director of the Chemical Division was present at the ceremony along with Yoshiharu Moriya, chairman of Ricoh Europe BV, who emphasised that prior to the opening of the new plant his company had relied very heavily on imported thermal paper. Now Ricoh will be able to meet most of its European requirements from Colmar thus enabling Ricoh's customers to enjoy the benefits of local European production.

With hard work and patience, Ricoh has produced at Colmar a blend of the best of Japanese research, inventiveness and product quality with the rich resources, skills and initiative of the peoples of one of the oldest settled regions in Europe.

Quite accidentally, this marriage was symbolised at this week's opening ceremony. Beside the red, white and blue of the French tricolour three large, brightly coloured Japanese carp flags weaved and billowed in the breeze blowing from the Vosges mountains. Celebrating "Boys Day" in Japan earlier this month, the black fish flag ("Father" carp), the red fish ("Mother" carp) and the small blue fish ("boy" carp) described an equally old tradition of people from the other side of the world.

Today, international business giants such as Ricoh are bringing together the business experience, the inventiveness and skills of both East and West to help create a more prosperous Europe and a better world.

RICOH

Official Olympic Facsimile Network Sponsor

Countdown to the Games

There are now only 72 days to go to the opening ceremony of the Summer Olympic Games in the Montjuic Olympic Stadium in Spain's historic port of Barcelona. As the world's top athletes make the final preparations for what will be the greatest athletic challenge of their lives, the Olympic organisers are putting the finishing touches to ensure that the biggest ever Olympic Games also becomes the best ever.

Such an international event, which will be watched by billions around the globe, draws on great reserves on human ingenuity, co-operation and communication. And as the Official Fax Network Sponsor to the Olympic Games, Ricoh is playing its part.

By installing the first facsimile network in history, Ricoh has linked more than 160 countries on six continents with the International Olympic Committee's headquarters in Lausanne, Switzerland and the Olympic sites in Barcelona and elsewhere in Spain where the Olympic events will be held. In total some 1,400 facsimiles facilitate smooth communications around the world.

Just as in the Winter Olympics in Albertville, France, where Ricoh faxes helped smooth the Olympic Family communications to all corners of the globe, Ricoh is ready to ensure that Ricoh's faxes will bring the "Olympic global village" even closer together to share in the up-to-date results and dramas of the 1992 Olympics.

RICOH

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Sales rise points to slow recovery by US economy

By Michael Prowse in Washington

US ECONOMIC reports yesterday provided further evidence of a slow recovery from recession.

The Commerce Department said retail sales rose 0.9 per cent in cash terms last month, and by 4.4 per cent in the year to April.

This was a stronger performance than expected, but figures for March were revised down substantially to show a fall of 1 per cent rather than 0.4 per cent. After seasonal adjustment, the April increase left sales slightly lower than in February.

Consumer prices rose 0.2 per cent last month and by 3.2 per cent in the year to April, indicating that resumed economic growth is not yet putting upward pressure on inflation. Figures for producer prices released this week were also subdued.

Following the report on Friday of a bigger-than-expected rise in payroll employment last month, the sales figures appear to confirm a gradual improvement in the economy. Some analysts, however, remain worried that growth of personal incomes will be too weak to support continued sales growth at the April pace.

The jump in sales was seen a reducing, but not eliminating, the chance of another small cut in interest rates. The Federal Reserve remains concerned by very sluggish growth of the money supply.

The retail improvement was led by car sales, which rose 2.9 per cent last month and by more than 10 per cent relative to April last year. Excluding cars, retail sales rose 0.4 per cent in April. Sales of building materials and clothing were also strong last month.

Excluding food and energy, which tend to be volatile, "core" consumer prices rose 0.3 per cent last month, the lowest increase since January. Annualised core inflation is running at just under 4 per cent.

Perot would win in California says poll

By George Graham in Washington

PRESIDENT George Bush and Governor Bill Clinton are moving steadily towards a confrontation in November, in the US presidential election, each having won two more primaries on Tuesday.

But a new opinion poll showed that, in California, the largest state, they would both be beaten by Mr Ross Perot, the Texas businessman mounting an independent challenge for the presidency.

Some analysts suggest that the disgruntled people most likely to tell a pollster that they would vote for Mr Perot are also the least likely to vote. But his supporters have surprised many with their ability to collect enough signatures to put his name on the ballot in states from Texas to Maine.

Mr Bush was assured of the Republican party's presidential nomination before he took more than 80 per cent of the vote in Nebraska and West Virginia this week.

In the Democratic primaries, Mr Clinton won Nebraska with 48 per cent and West Virginia with 74 per cent. In the latter, he kept his challenger, former Governor Jerry Brown of California, below 15 per cent, thereby taking all 31 of the state's delegates to the Democratic convention which will anoint the party's presidential candidate in July.

Many political pundits have called the Arkansas governor's results disappointing, but he has scored as well as Mr Michael Dukakis, the Democratic nominee in 1988, at this stage of the campaign.

Brazil plans radical tax devolution to states and cities

THE Brazilian government will outline radical proposals this week to halve the number of federal taxes and shift responsibilities for many public services from the federal government towards states and municipalities, report Stephen Fidler and Christina Lamb in Brasília.

The reforms, aimed to enable the government to balance its books consistently, are seen as crucial for the success of Brazil's economic stabilisation programme.

Mr Ary Oswaldo Mattos Filho, co-ordinator of the Fiscal Reform Commission, said in an interview that the proposals will be presented across the country to mass public meetings throughout next month.

The final version will go to Congress only after municipal elections in October. This means the government will have to continue to rely on tight monetary policy as its main weapon against inflation for at least the next six months.

According to Mr Oswaldo, the main thrust of the reform will be to devolve greater responsibilities to the states and municipalities, transferring services such as health and education from the federal government. It would reduce the number of major taxes to eight from 15.

Under the proposals, the federal government would raise taxes in two ways - via excise duties on items such as fuel, cars, tobacco, drink, electricity and telephones; and through income tax.

It would also broaden the base and lower the rates of the current income tax, reducing heavy payroll taxes on companies, a focus of legal controversy.

For the states, the main source of revenue would be value-added tax and, for municipalities, a property tax applied to rural and urban areas.

Under the 1988 Constitution, about half of tax revenues is transferred to the states and muncipalities, but without clear definition of their responsibilities. "We cannot reduce the transfer of funds but we can pass to them the jobs they could perform better", said Mr Oswaldo. "At present, one cruzeiro leaving Brasilia for schoolbooks has to go through so much bureaucracy that it is worth only a few cents by the time it reaches its destination."

He stressed that the planned decentralisation would "improve efficiency and bring the citizen closer to the provider of services". He believed it would be politically popular because mayors and governors could win electoral support for building and running good schools and hospitals.

Moreira sees debt deal soon

By Stephen Fidler, Christina Lamb and Edward Mortimer in Brasilia

MR Marcílio Marques Moreira, Brazilian economy minister, expects to conclude an agreement in principle, during the next six weeks, on the restructuring of Brazil's commercial bank debt.

He also said for the first time that Brazil would be willing to contribute part of its foreign reserves to support the agreement with banks. This should ease the path to an accord over the $42bn (£23.7bn) in medium- and long-term debt.

A sharp rise in Brazilian reserves over the past six months has helped allay fears that there would be insufficient resources to back the debt agreement. Finance is necessary to pay for collateral to guarantee concessional bonds to be issued under the agreement.

Mr Moreira insisted in an interview that the guarantees would still have to be phased in over time, as the volatility of reserves did not permit an immediate earmarking of the funds.

He said the growth in reserves was now beginning to flatten out, although they had risen significantly since the last published figure of $11bn at the end of February. Inflows of capital had subsided since the government restricted, late last month, the ability of Brazilian entities to borrow abroad.

The Brazilian economy, in a three-year recession, was bottoming out, he believed. This was suggested by several factors, including a 2 per cent increase in energy consumption over the first quarter of last year in São Paulo, responsible for 40 per cent of Brazil's gross domestic product.

He denied that he was under pressure to relax the government's tight fiscal discipline by releasing more money to the states and to the armed forces.

There has been growing discontent over the low level of pay in the military, particularly in comparison to that of the executive and legislature. A fighter pilot earns the same as a lift operator in Congress, Mr Moreira admitted, and said that such anomalies would have to be corrected over time.

He said his priorities for the coming year included a reduction of inflation, to 2 or 3 per cent a month from about 20 per cent now, and overseeing a sustainable return to growth.

The minister wanted to complete the agreement with banks and to secure legislation, among other things, for port deregulation, an end to some state monopolies, and fiscal reform.

Last week, the government confirmed it had not met its first-quarter targets under a stand-by programme with the International Monetary Fund.

Mr Pedro Parente, Brazil's planning secretary, indicated the extent to which government spending had been compressed during the first quarter, in a vain attempt to meet the target for the operating deficit (current revenues less current expenditures and debt interest).

Economy Minister Moreira: Easier path in prospect

He said the government had foreseen expenditures of five trillion cruzeiros ($2bn at the present rate) in the first quarter of the year, but had spent only three trillion – a cut of 60 per cent in real terms compared to the first quarter a year earlier.

However, there was an operating deficit of Cr10.8 trillion, the target having been Cr5.6 trillion. This was because interest payments on internal debt were Cr2.8 trillion above target – interest rates were higher than expected – while government revenues were Cr4.4 trillion less than expected because of legislated delays in the collection of some important corporate taxes.

The government hopes the delayed tax payments will begin to flow this month, interest rates having already fallen from first-quarter levels. Mr Parente said he was thus still convinced the government could meet half-year targets.

Sharp increase likely in US bank insurance

By George Graham in Washington

US BANKERS are bracing themselves for a sharp increase, next January 1, in the premiums they must pay to the Federal Deposit Insurance Corporation.

The FDIC, the government agency that guarantees depositors if their bank fails, had its reserves wiped out by a wave of bank failures in the 1980s. It has proposed a new premium formula that would make weakly capitalised banks pay substantially higher rates than those with solid capital bases. Even the strongest banks, however, would have to pay higher premiums than they do now.

But bankers complain that the stiffer premiums will force more weak banks out of business and compel even the stronger banks to be more conservative in their lending – just as the US government is urging them to ease a possible "credit crunch" by lending more, especially in risky inner-city areas.

"This is mandating a conservative mentality for the rest of this decade," said Mr Kenneth Guenther, executive vice-president of the Independent Bankers' Association of America.

The proposed changes to the FDIC premium structure are available for public comment, but opponents of the increase do not expect to be able to influence more than details of the new premiums.

The FDIC proposal would increase the level of premiums from 23 cents per $100 of deposits to an average of 28 cents, and could levy an additional $1.5bn a year of premiums. Well-capitalised banks would pay 25 cents; the weakest a 31 cents premium.

Advocates of the premium increase believe it is needed to replenish the Bank Insurance Fund (BIF), which the FDIC manages. The administration reckons the fund will have a deficit of $2bn this year, climbing to a peak of $39bn in 1996.

However, others argue that these projections greatly exaggerate the BIF's likely deficit. Also, higher premiums could slow economic growth and so have a negative impact on the fund.

More federal loans for LA

PRESIDENT George Bush has approved an additional $600m in federal loans to help victims of the Los Angeles riots, the White House spokesman said yesterday, Reuter reports from Washington.

The Federal Home Loan Bank Board system would provide additional low-interest loans to double the federal loan assistance for those who suffered in the three days of rioting this month.

NEWS: WORLD TRADE

Italian utility in £4.5bn gas import deal

By Haig Simonian in Milan

ENEL, Italy's state-owned electricity generating utility, has signed one of the world's biggest long-term energy supply contracts with Nigeria in a liquefied natural gas deal worth around L10,000bn (£4.5bn) over 20 years.

The transaction, starting in 1997, marks a further diversification of supplies for the energy-dependent Italians. It is the first direct liquefied natural gas deal between a big European electricity utility and an energy producing country.

ENEL will buy 3.7bn cubic metres of gas a year from a new plant being built by Nigeria Liquified Natural Gas, a Nigerian government-owned company in which Shell, Agip and Elf are also shareholders. Smaller quantities of gas will also be supplied to utilities in Spain, France and the US.

The price ENEL will pay will be indexed to that of crude and refined oil, as well as coal, but the value of the contract is expected to amount to L500bn a year.

Once the liquefied gas arrives in Italy, it will be processed at a new facility at Montalto di Castro in the central Lazio region. The plant will supply a 3,300 MW power station to be built nearby.

ENEL currently uses 6-7bn cu m of natural gas a year, but expects consumption to rise to 20-25bn cu m by the year 2000 after a number of deals are completed.

Around 6bn cu m of Algerian gas will be supplied via an undersea pipeline being built by the Italian state-owned SNAM group, while a further 1.5bn cu m will be imported in liquid form. Meanwhile, talks are under way with Norway to supply 3-4bn cu m, while further supplies may come from Qatar. The new contracts should help to overcome the uncertainty surrounding plans to import 4bn cu m of gas from Russia.

Italy uses around 50bn cu m of natural gas to generate electricity and for domestic purposes, 60 per cent of which comes from Algeria and Russia. Future consumption is expected to rise to 80bn cu m, three-quarters of it imported.

Transport groups form alliance

By Hilary Barnes and Sarah Pilkington in Copenhagen

GERMANY'S Thyssen Haniel Logistic (THL) yesterday announced the first steps in a Europe-wide shipping and transport alliance.

It is to link with Denmark's DFDS group and Austria's Schier, Otten. Further partners for THL Europa Alliance are being sought in Greece, France and Italy.

Under the alliance, DFDS, which operates Scandinavian Seaways shipping services in the North Sea and overland haulage, will take over THL's overland transport businesses in the UK, Netherlands and Belgium. THL, part of the Thyssen group, will take over DFDS operations in Spain and Hamburg. The alliance will operate in Germany, Switzerland, Spain, Scandinavia, the UK, Netherlands, Belgium, Ireland and Portugal.

Mr Ole Frie, manager of the DFDS transport division, said the alliance was an alternative to the acquisition policy pursued by other major European haulage groups over the past few years. He said the alliance would yield the advantages of acquisition without the costs and the problems associated with integrating companies.

Gatt ruling fuels US/EC tension

By Frances Williams in Geneva and Andrew Hill in Brussels

A GATT disputes panel has ruled against the US after a complaint by the European Community over Washington's "Buy American" policy.

The panel said the proposal to buy a sonar mapping system broke rules on government procurement under the General Agreement on Tariffs and Trade and that the US should open bidding for the system to overseas suppliers.

However, the US, which disputes the panel's interpretation of Gatt rules, yesterday opposed adoption of the report by the world trade body's government procurement committee. Reports have to be adopted by consensus under Gatt procedures. The report will come back to the committee at its meeting in June.

The dispute relates to the purchase of a $2.4m sonar mapping system – an underwater radar system, which uses ultrasound to detect objects. The purchase was part of a 1989 contract for Antarctic research support services between the National Science Foundation, a US government agency, and Antarctic Support Associates, a private company. The US Congress imposed a "buy American" requirement. The administration argued the purchase was not covered by the Gatt code, which does not apply to service contracts.

The panel ruled that the purchase constituted government procurement even though it would be done through a private company, because the US government was putting up the money and would own the sonar mapping system.

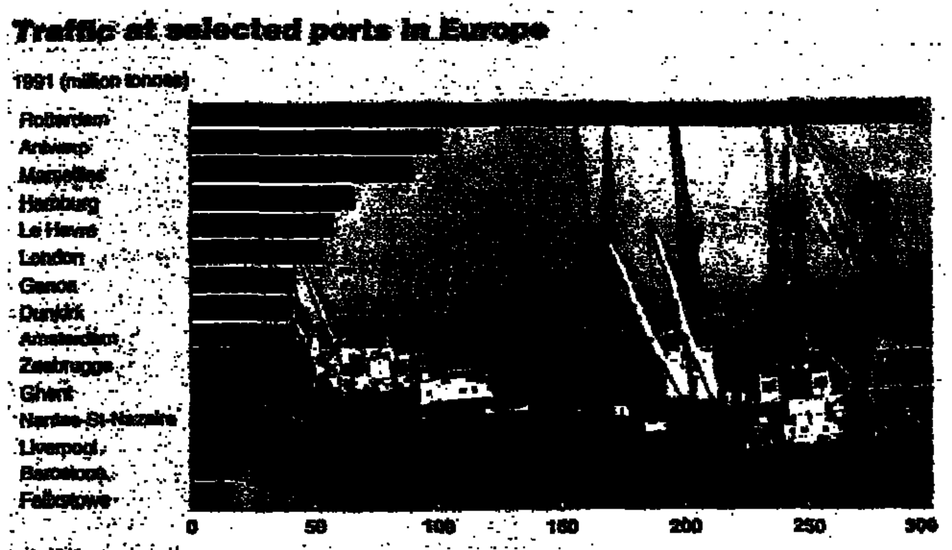
Tension between the EC and the US has mounted since February, when Mrs Carla Hills, US trade representative, set a January 1 deadline for the imposition of sanctions unless the EC altered its public procurement legislation.

On Tuesday, the EC urged the US to end discrimination against non-US companies tendering for public contracts and to call off threatened sanctions.

French ports in a storm over reform of dock labour scheme

By William Dawkins in Paris

Traffic at selected ports in Europe



FRENCH dockers are to step up their seven-month campaign of strikes against plans, presented to parliament yesterday, to scrap their 45-year-old protected status.

The reform of the dock labour scheme is a long-delayed attempt to restore the competitiveness of French ports against cheaper and more efficient competitors in Belgium and the Netherlands.

The reform would transform dockers into normal salaried workers and give freight handling companies the right to decide how many employees they need. The number of jobs in the docks and their distribution between ports would no longer be decided centrally, except for temporary workers. Dockers out of work would receive ordinary unemployment benefits, rather than be paid through a central organisation.

France is one of the last European countries to attempt to modernise labour practices in its ports and accordingly has lost billions of francs of port traffic to Antwerp and Rotterdam, easily reached by rail, motorway or canal.

The problem has been worrying the government for years, but has been too sensitive to tackle until now because the docks are one of the last strongholds of the well organised and aggressive communist-led trade union, the CGT. The 1947 ports labour law gives the CGT a near-monopoly on jobs in the docks and the system of a central ports labour office has made it hard to dismiss surplus workers.

However, political sympathy for the CGT has declined along with support for the communist party. There is a growing consensus between the main parties, and especially among industrial companies, that France can no longer afford the old restrictive practices.

Over the past decade, the share of French exports to pass through its sea ports has fallen from 75 per cent to 59 per cent, while their share of imports has fallen from 35 per cent to 33 per cent. Over the seven years to 1990, the share of French sea-born exports to go through foreign ports has nearly doubled from 15 per cent to 29 per cent.

This has cost France heavily. The government estimates that FFr210bn (£21.2bn) of French exports and imports went through non-French ports last year, while the dockers' strikes cost freight handlers around FFr1bn in lost charges.

It is surprising the damage has not been greater, given that that French ports are so overmanned that dockside handling charges – by far shippers' biggest single port cost – are between 30 per cent and 50 per cent above the European norm.

The reform is now being pushed hard by the maritime affairs minister, Mr Charles Josselin, who aims to get them passed by parliament next month.

The CGT reckons about half the 8,300 dockers will lose their jobs if Mr Josselin gets his reforms. It is unimpressed by government offers of early retirement and redundancy payments, plus retraining.

In response, the union has called 31 short strikes since October, the most recent a week-long stoppage, starting last Monday, timed for the parliamentary debate. Yesterday, the CGT also held demonstrations in Paris and the main ports.

Freight handling companies warn that more French shippers will be tempted to cheaper and more reliable ports in Belgium and Holland for good if the strikes get much worse. But neither the government nor the CGT are in a mood to give in.

Turkmens in trade deal with Iran

By Gillian Tett

TURKMENISTAN has reached a transport, banking and trade agreement with its neighbour, Iran.

The deal, agreed during a visit by Iranian President Akbar Hashemi Rafsanjani to the former Soviet republic, considerably expands Iran's economic influence in the region. It follows the failure last weekend of a joint central Asian, Turkish, Pakistani and Iranian summit to agree on economic co-operation, and is a setback to Turkish efforts to curb Iran's economic role in the region.

Under the agreement, a joint banking and customs system will be established between Turkmenistan and Iran.

Road and rail links will be completed. According to Mr Mohsen Nurbakhsh, Iranian finance minister, the $500m (£282m) cost of the railway will be primarily born by Iran. This is in addition to $50m of Iranian credits to Turkmenistan announced last week.

"What we are offering them is the chance to export goods via the Persian Gulf," said Mr Nurbakhsh, who envisaged that raw materials, including Uzbek cotton and silk, Kazakh oil and Turkmen natural gas could soon be exported through this route.

A second project to build a gas pipeline from Turkmenistan to Iran had also been agreed, Mr Nurbakhsh said. A deal for the purchase of 19bn cubic metres of Turkmen gas by Iran has been signed, with plans to expand this once the pipeline had been completed. According to Mr Nurbakhsh, some of this gas would be used in Iran, and some exported to the west, and Turkey.

Discussions were continuing about a controversial oil pipeline between Turkmenistan and the Gulf.

Central American states form trade bloc

EL SALVADOR, Guatemala and Honduras have agreed to create a free trade zone across their three countries and to accelerate central American integration, Reuter reports from Ocotepeque, Honduras.

The accord will allow unrestricted movement of almost all goods and capital across the three countries and establish uniform customs duties on imports.

Annual trade between El Salvador, Guatemala and Honduras currently runs at some $800m. The free trade zone creates a market of some 20m people, in which total imports are estimated at $4.5bn.

EC aid for textile restructuring

The European Commission yesterday finalised a Ecu500m (£350m) aid programme to help poorer areas of the Community restructure their textile industries, and so indirectly to reduce protectionism against imports, writes David Buchan in Brussels.

The chief beneficiary of the aid, to be spread over 1993-97, will be Portugal, where textiles account for one third of manufactured exports. Lisbon had been promised the aid in return for not obstructing an opening up of the EC market to textiles from central Europe and possible moves towards free trade with north Africa.

Taiwan denies currency complaint

Taiwan's central bank governor Mr Samuel Shieh yesterday rejected US allegations that it had manipulated the exchange rate to maintain export competitiveness, writes Luisetta Mudie in Taipei.

The Taiwan dollar finished at a record high of 24.91 to the US dollar, as dealers anticipated further US pressure to let the currency appreciate.

The local currency has been under strong upward pressure largely as a result of the island's large trade surplus and high interest rates.

UK rejects Brussels budget proposals

By Philip Stephens, Political Editor

MR NORMAN LAMONT, the chancellor of the exchequer, flatly rejected yesterday the European Commission's plans for a steep rise in the Brussels budget and added a warning to *his cabinet colleagues* to rein back their domestic spending ambitions.

In his first set-piece speech to the House of Commons since the general election, the chancellor said control of the EC budget was essential to his plans to hold down public spending and borrowing.

He dismissed as as an "ambi*tious shopping list" the plan* by Mr Jacques Delors, Commission president, to progressively raise the ceiling on the EC's resources. Stressing that there were "greater priorities" than increases in spending, he said there could be "no question" of Britain accepting a reduction in its rebate from Brussels.

Mr Lamont's officials said *that Mr Delors' proposals* could add £1bn a year to Britain's contribution, which will reach £2.4bn this year even after the rebate. The debate over Community resources is expected to dominate its business during much of the second half of this year after Britain assumes the presidency in July.

Reviewing the domestic outlook, the chancellor said that he was confident that the promised economic recovery would become "firmly established" during 1992 as increases in real disposable incomes fed through into higher consumer spending.

But with the main economic indicators still mixed and ministers braced for official figures later today showing that unemployment remains on an upward trend, he was careful not to put a more precise timetable on his forecast.

The chancellor was also cautious about the prospects for further reductions in interest rates, emphasising that his priority was to seize a "once-in-a-generation chance" to push towards price stability. He predicted that producer price inflation would fall below 2 per cent in 1993.

Facing charges from the Labour party that the Treasury is already set to overshoot the target set out in the March budget, Mr Lamont insisted that he was sticking to the forecast of a £28bn public borrowing target in the current financial year. But he repeatedly sidestepped opposition demands to spell out when the government would meet its commitment to return the budget to balance.

In a warning to his cabinet colleagues, he *said* the Treasury's plans for a steady reduction in borrowing meant that their could be no overshoot in its spending plans for the next three years. With several departments already preparing bids for next year which would breach the £244.5bn target, his comments foreshadowed intense wrangling in this *autumn's spending* round.

The budgets of the defence, home and transport departments are obvious targets for savings, but education and health can also expect far less generous settlements than in recent years. Higher-than-expected unemployment will force another big increase in social security payments.

Warning issued on move to single currency

By Peter Marsh, Economics Staff

A WARNING about the practical difficulties involved in the move to a single Euro*pean currency was delivered* last night by Mr Eddie George, deputy governor of the Bank of England.

In a speech at Hull University, Mr George questioned the timetable for European economic and monetary union (Emu) and the credibility of the proposed European Central Bank (ECB). The remarks by Mr George – a noted sceptic on Emu – may influence MPs ahead of next week's Commons debate on the Maastricht treaty, which last December *set the framework for a move* to union later this decade.

Mr George also held out little prospect of any early move by the government to reduce base rates further, following last week's 0.5 point reduction to 10 per cent. *But in the longer* term he hinted at the possibility of bringing UK rates lower than those in Germany, on the proviso that Britain kept inflation low and retained the confidence of financial markets.

On Emu Mr George said that, given the practical difficulties ahead, the schedule as set out at Maastricht looked ambitious. Under the Maastricht plan, the final stage of Emu will start up with or without Britain by 1999.

The problems included con*verting national currencies* into European currency units, and producing the necessary new coins and notes. Another was in establishing Ecu payments systems.

Mr George was particularly sceptical about the operation of the ECB, which in the final stage of Emu is due to administer the single currency and set pan-European interest rates.

He said the central bank might be "vulnerable to misjudgment and to outside influence" and would find it diffi*cult to gain credibility* on financial markets.

In terms of determining the correct level of interest rates, the ECB would be faced with huge problems in monitoring how factors such as financial liberalisation affected the pan-European economy.

Targeting different aspects of the money supply across Europe would be difficult, given the complexities of the *flow of money* across national borders. Mr George said that for all the discussion about the generalities of Emu not enough work had been done on the practical details.

Tour groups suffer dismal year

By Gary Mead and Bethan Hutton

BRITAIN'S tour operators had a dismal year in 1990-91, and the current 12 months could prove even worse. An expected post-election surge in package holidays has failed to material*ise, leading to a wave of deep* discount offers.

A number of tour operators have cut the price of May and June holidays by as much as 60 per cent in an effort to fill empty seats – in some cases up to quarter of their capacity.

Thomson, the largest operator, has been discounting heavily. Last-minute bargain seekers can pick up a Thomson fly-drive holiday to Florida at £199 which would normally cost over £400.

The Civil Aviation Authority yesterday published figures showing that tour operators had over-capacity of 1.6m holidays in the year to September *30 1991, turnover of £440m* less than the industry predicted.

The 40 largest operators had obtained CAA licences for 11.9m passengers, but actually carried only 10.3m. This year, tour operators have told the CAA they expect to carry 13.5m passengers, an increase of more than 30 per cent on last year's actual figures.

CAA licences for this year project turnover of £4.44bn, a substantial increase on both the forecast for 1990-91 (£3.65bn) and the actual turnover achieved (£3.21bn).

But Thomas Cook, the travel agent, said that "those in the industry who expected a post-election expansion of package holiday demand have been disappointed. The market is not as buoyant as some predicted".

Holidays for May and June have "not been selling as well as would have been liked" Thomas Cook said.

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National training programme in jeopardy

By David Goodhart and Andrew Adonis

THE 1,000 business leaders responsible for the govern*ment's training programme* have warned ministers that the national training structure is on a "knife-edge" and may collapse unless they are allowed greater freedom from bureaucratic interference.

A *confidential memorandum* submitted by leaders of the 82 Training and Enterprise Councils (Tecs) to Mrs Gillian Shephard, the employment secretary, warns that without "major reform" the 1,000 *senior executives running the* Tecs "will simply walk away".

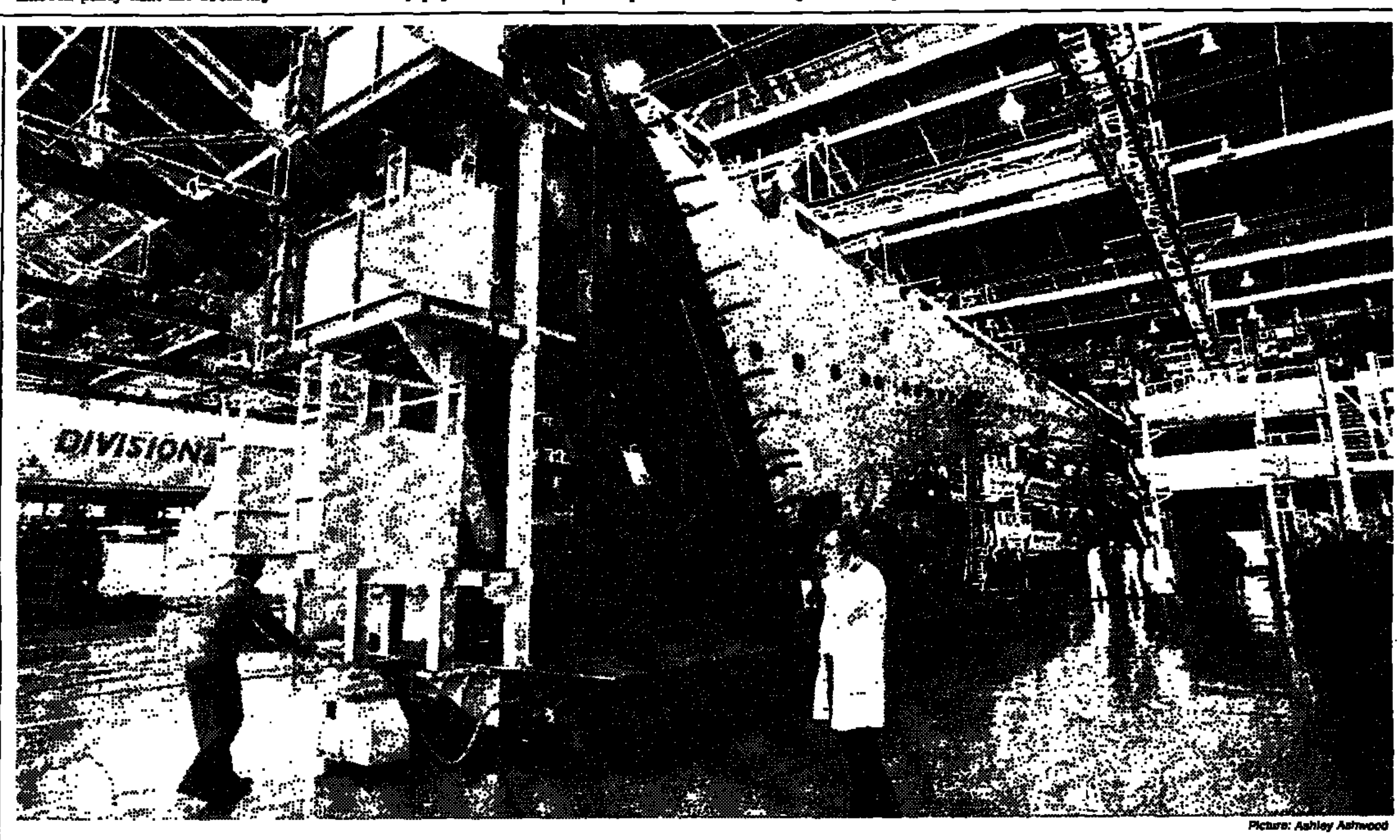
"There will be no mass protest," says the memo from G10, the body which represents Tecs. "But their effectiveness will drain away into the sand of inertia".

The Tec leaders are scathing about the extent of government bureaucracy and the absence of a clear cross-government approach to training. They say that Tec successes are now jeopardised by "a welter of administrative procedures" and cite interference in their accounting and business methods from Department of Employment officials.

They are anxious to win more discretion in the way they manage the two main training programmes: Youth Training (YT), which provides up to two years training for 300,000 teenagers, and Employment Training (ET), which provides up to one year training for 149,000 unemployed adults. Few of these trainees get full-time jobs.

They doubt whether it is cost effective to retain the existing guarantees of a place on either ET or YT and claim it cannot be done without additional funding. "It is questionable whether the best *value for money is obtained* when the main focus is on the long-term unemployed".

A loosening of the guarantee would be politically controversial and might raise the headline rate of unemployment.



Picture: Ashley Ashwood

British Aerospace delivered the 1,000th set of wings yesterday for the European Airbus programme. They were for an Airbus A310, to be operated by Mexican charter airline Aerocancun. It has taken Airbus 21 years to produce 1,000 aircraft but this will be doubled in the next four years.

Lautro fines insurer £65,000

By Norma Cohen, Investments Correspondent

NORWICH UNION, one of the UK's largest life insurers, has *been ordered to pay £65,000* in fines and costs for misleading advertising, the first such fine to be levied by regulators on a life insurance company.

Lautro, the self-regulatory body for the insurance industry, *said yesterday that the* £50,000 fine and £15,000 in costs incurred by Norwich Union, are the first since it was granted authority to levy such fines last autumn.

Its disciplinary committee is reviewing eight or nine other cases against life insurance companies which may also result in fines. Most of these involve life insurance companies' failure properly to control their sales agents.

Lautro is widely seen as having taken a tougher stance on life industry sales practices in recent months, following rising complaints about mis-selling by sales agents.

The fines against Norwich Union stem from a four-page advertisement in the Sun newspaper on April 25 1991 offering a 15-year savings plan with initial monthly premiums *of £10 or £20. Lautro said the* style, layout and presentation of the advertisement made the material indistinguishable from the Sun's editorial material so that readers could have believed they were reading a journalist's independent account of a product.

The advertisement was placed in the Sun by one of Norwich Union's so-called tied agents, which do not work for the company directly but sell its products exclusively and earn commissions for each policy sold. Lautro has said that tied agents account for a disproportionate number of complaints *against life insurers*.

The tied agent, SunCare, was a subsidiary of Sedgwick Group, a national chain of financial services brokers, and was formed for the sole purpose of the Sun promotion *campaign. SunCare no longer* exists. Norwich Union said it planned to continue offering its products through Sedgwick subsidiaries.

Norwich Union said 6,000 people responded to the advertisement, of whom roughly 4,500 took up the offer. At the request of Lautro, it wrote to all clients to say the product did not have the Sun's endorsement – which resulted in only two requests for refunds.

Lloyd's faces losses over shuttle rescue mission

By Richard Lapper

UNDERWRITERS AT Lloyd's *of London stand to pay claims* of around $20m if attempts to rescue the Intelsat VI satellite are unsuccessful.

Astronauts from the NASA space shuttle Endeavour were scheduled to make a final *effort to rescue the communi*cations satellite last night.

Lloyd's insurers, led by underwriters Mr Michael Marchant and Mr Stephen Merrett, as well as a number of international companies insured the *rescue mission on behalf of* Intelsat's 122 partners.

The insurance policy, 45 per cent of which is placed in Lloyd's, covers $44m of the $147m cost of the mission.

If the rescue is successful, Intelsat will offset the costs of the mission against expected revenues instead of claiming on the policy.

Intelsat paid for the rescue because the satellite because The Intelsat partners who bought the policy are understood to have a paid a premium of $13.2m, around 30 per *cent of the cost of the mission.* Other Intelsat partners opted to self-insure.

The satellite was originally launched two years ago but was left stranded at low altitude following the malfunc*tioning of a motor. Two previ*ous rescue missions have failed.

Worldwide premium income from satellite insurance amounts to around $400m a year.

Students come from Russia with love of capitalism

Peter Norman encounters some young financiers keen to learn the lessons of Britain's banking system

THEIR resolve stiffened by an outward bound course in the Welsh mountains, the first of *up to 1,000* young Russians will shortly begin working with British financial institutions under a scheme initiated by Mr Norman Lamont, the chancellor of the exchequer, to spread practical knowledge of the market economy in the former Soviet Union.

Last night, the first pilot group of 20 "secondees" and their employers attended a reception in Downing Street to mark the start of what has become known as the Chancellor's Financial Sector Scheme.

The idea is that banks, building societies, insurance companies, brokers, accountants and solicitors across Britain should provide jobs for financial services personnel from Russia and the other former Soviet republics for between six months and a year. On their return they will become an élite corps that will help build the financial, legal and accounting infrastructure needed to modernise the former Soviet Union.

"A modern financial system is basic to the future of Russia," Mr Lamont told the Financial Times. "I think they need help there. By asking each company really to make a small sacrifice, just to pay somebody for a short period of time, it seemed to me that by harnessing private effort we really could achieve quite a lot."

Having met five of the Russians this week, it seemed more likely that the first group of employers – which range from N M Rothschild and Sons in the City to the Marsden Building Society in Lancashire – will be gaining a valuable asset rather than making a "small sacrifice" by employing the secondees.

All were extremely keen to start work around the end of this month after completing an intensive course in business English and finance. They also proved to be surprisingly knowledgeable, reflecting, in some cases, intensive study of capitalist ways.

Mr Viatcheslav Butyrski, at 28 the head of securities trading at Promstroybank in Moscow, was looking forward to six months with Swiss Bank Corp in London in which he would be able to relate his theoretical knowledge of share and bond trading to modern practice. He obtained a degree in capital market studies from the USSR Institute of Banking before joining the 70 year old Promstroybank after it had been converted into a joint stock bank a year ago.

Ms Marina Krupina, 37, will be working in Cardiff with the Bank of Wales where she hopes to learn how a medium sized western bank operates.

> "I will work in Lloyds Bank and will try to find something really good for the Russian economy. I want to be an expert, the best *in* my sphere"

She says she has already gained some insight into western accountancy and taxation practices after working at Promstroybank for five years on joint ventures with foreign firms.

As one of the owners and directors of Marka Ltd, a private sector financial consultancy and stockbroker, Mr Igor Kostikov, 33, is already an entrepreneur in his own right. His already varied career began with the study of Marxist political economy. But he claims that he has spent 6 years acquiring expertise about the British economy.

The main computer centre of the USSR Ministry of Finance may seem an odd apprenticeship for a stockmarket career. But Ms Elena Shakhurina, 26, is now a fervent advocate of privatisation and looking forward to applying experience acquired with Nikko Europe PLC when she returns to Moscow's International Stock Exchange in six months time.

Just a year ago, Mr Max Diakonov, aged 22, graduated from Moscow's finance academy and joined the international department of Inkombank, one of the new Russian commercial banks, as head of correspondent banking.

"I have very good relations with western banks. But I don't have enough experience. That is why I am here. I will work in Lloyds Bank in London and Birmingham and try to find something really good for the Russian economy," he says. "I want to be an expert, the best in my sphere."

This first batch of secondees are impressive. But officials from the British Council, which is managing the scheme, point out that the first candidates "self selected" themselves, after hearing about the plan on the Moscow gossip circuit or having been tipped off by employers that were in close contact with the British Embassy or British Council in Moscow. They then had to go through a rigorous selection procedure, including tough test in English.

Sir Derek Thomas, European adviser to NM Rothschild who helped *to interview the candidates, has no* doubt that Russia and the other republics will make the transition to the market economy if the pilot group is representative of young Russians as a whole.

Some 300 UK firms have promised *to take* on a secondee. "And if we can get 1,000 people, that actually is a very big thing," says Mr Lamont. But the young Russians now in Britain are under no illusion that the hard work begins once they return home. As Mr Diakonov says: "The main aim of the scheme is to help but not to solve our problems."

The Chancellor's Financial Sector Scheme, The British Council, Projects Division, 20 Bedfordbury, London WC2N 2BL. Tel: 071 389 8350 Fax: 071 389 8399.

Britain in brief

Morton calls for 10 new "Eurolinks"

Sir Alastair Morton, chief executive of Eurotunnel, has called for 10 new "Eurolink" projects to provide transport routes from the UK to the Continent following completion of the Anglo-French Channel tunnel.

Sir Alastair, addressing the Royal Society of Arts, stressed that the UK was in danger of being marginalised by the shift in the EC's centre of gravity towards the newly-liberated countries of the east. To counter this, the UK needed to modernise its transport infrastructure. He said the links should be paid for with revenue from a new transport and environment tax.

Among the routes he listed were rail links between London and the Midlands and the north-west, extra Thames crossings, and the introduction of tolls on the M25 to discourage local traffic.

Manufacturing ready for upturn

Many British manufacturing companies have taken positive action during the recession to take advantage of an economic upturn which is already underway, according to a survey published by Coopers & Lybrand Deloitte, management consultants.

The survey of 450 of Britain's biggest manufacturers, conducted by Gallup, shows that most have implemented cost reduction programmes and speeded up the introduction of new products. They have also invested more in new production processes, increased export business and improved delivery times.

Unions reject Dockland plan

Government officials' unions have bitterly attacked plans to relocate 2,000 civil servants from the environment and transport departments to London's Docklands.

The transfer, due to be com*pleted by the end of December* 1993, is expected to be to Canary Wharf, Europe's largest property development owned by the beleaguered Olympia & York.

The First Division Associa*tion, which represents senior* government officials – civil servants – accused ministers of spending public money to bail out private sector property developers.

NAO criticises power sell off

The government could have increased its proceeds from the privatisation of the electricity distribution industry in 1990 by clawing back part of the profits which the companies reported in the *subsequent year*, according to the National Audit Office.

In a report on the sale of the 12 regional electricity companies, the office said the Department of Energy considered such a move but decided against because it could have hit the companies' dividend payments, and reduced the proceeds.

New jobs at industrial park

More than 9,500 jobs have been created in Trafford Park, Greater Manchester, in the *last five years, according to* an census the park's development corporation – set up by the government in 1987 to counter the decline of traditional industry in north west England.

Trafford Park, Europe's first industrial estate, houses 1,188 companies, a rise 460 since 1987, and it now employs 34,492 people.

Police save £1bn from fraud

The City of London Police said in *its annual report* that it recovered, or saved from fraud attempts, nearly £1bn last year. The figure did not include the frauds involving the Bank of Credit and Commerce International and Mr Robert Maxwell. Manpower in the force's company fraud department was increased by 50 per cent to handle the rise in *large scale* fraud.

The report's authors called for more effective self-regulation among financial institutions as fraud attempts increased by up *more* than 70 per cent.

Tool producer wins orders

Jones & Shipman, the Leicester-based machine tool manufacturers, announced more than £500,000 worth of domestic and overseas orders and claimed there were signs that manufacturing industry was beginning to pull out of the recession.

The orders, revealed during MACH 92, the four-yearly British machine tool exhibition *being staged in Birmingham*, follows the announcement of a joint agreement between Jones & Shipman and Overbeck, the German machine tool specialist, to collaborate on the development of a new generation of grinding machines.

Radon levels increase

England has about *100,000* homes with levels of radon above the level at government-recommends taking action, the National Radiological Protection Board estimated in a report published yesterday. Radon is a *radioactive* gas which accumulates naturally in the soil.

The board said 60,000 of the houses are in Cornwall and Devon; Derbyshire, Northamptonshire and Somerset are the next most *affected* counties.

IBM recruits salespeople

International Business Machines, famous for the size, quality and cost of its traditional salesforce, is training a small army of self-employed salespeople to help it market computers to the UK's 3.25m *small businesses*.

Later today the UK subsidiary of the world's largest computer manufacturer will announce a pioneering scheme through which an initial 50 salespeople - called "local busi*ness consultants" will sell* medium-sized IBM computers on a commission only basis.

Freedom urged for energy body

The UK Atomic Energy Authority should have more freedom to undertake commercial activities outside the nuclear industry, the Monopolies and Mergers Commission has said.

The authority – trading as AEA Technology – is "signifi*cantly inhibited*" by legal constraints which prevent it manufacturing non-nuclear products and forming joint ventures outside the nuclear field, the commission concluded. It has investigated AEA *as part of its* programme to review all bodies in the public sector.

Opera house for Edinburgh

Work has began on a £16.6m project to create *an opera* house in Edinburgh.

The project, which involves the conversion of the disused Empire theatre is expected to be ready in time for the 1994 Edinburgh International Festival. Mr George Younger, chairman of the Royal Bank of Scotland who chairs the Empire Theatre Trust, leading the project, said sufficient finance from the public and private sectors was in place. Bovis has been awarded a £12m contract as managing contractor.

TECHNOLOGY

Shared vision of IT

Conventional wisdom about the respective roles of the chief executive and the information technology director in the successful exploitation of computing in business is challenged in a new study from the Oxford Institute of Information Management.

The study was undertaken to examine the factors which could help to create a good relationship between the chief executive and the IT director. It is now generally accepted that a successful relationship is a key factor in the effective exploitation of IT. Yet the study found that:

- A background in marketing or general management is more likely to lead a chief executive to an effective "vision" of the value of IT than hands-on experience. This contradicts the view that top managers would only come to appreciate IT if they had practical experience.
- IT directors with a background in data processing are more likely to form a successful relationship with their CEOs than business line managers placed in top IT management jobs. This might seem obvious; but there is a well-known "culture gap" between computing specialists and line managers.
- It is not necessary for the IT director to report directly to the CEO as long as he or she is part of the top management team.

The study, carried out by David Feeny and colleagues at Templeton College, was carried out under the Impact Programme, now sponsored by KPMG Management Consultants.

The study suggests that a successful relationship between CEO and IT director derives from a common vision of computing as a way of conferring competitiveness on an organisation rather than merely automation and efficiency.

The relationship can be improved if the CEO sets aside time to explain his attitude to the IT director, if the IT director is a member of the company's "cabinet" and if the two executives spend time away from the office discussing business goals.

Alan Cane

Computer-aided design is finding new roles in countless productions across the world, writes Andrew Baxter

Shifting to high gear

Cadcam may no longer be in its infancy, but after the heady growth rates of the early 1980s the market for computer-aided design and manufacturing equipment and software still looks a long way short of reaching maturity.

While other sectors of manufacturing technology languish in recession, the world Cadcam market grew more than 10 per cent last year to $16bn, according to Dataquest, and will reach nearly $25bn (£14bn) in 1995 – a compound annual growth rate of 12 per cent since 1990.

The importance of Cadcam, and in particular 3D solid modelling, to concurrent engineering – the team approach to cutting product development times and improving quality – makes it virtually a necessity in mechanical engineering.

But other applications of Cadcam are now expanding faster, even though huge untapped opportunities remain in the dominant mechanical sector. Meanwhile, the industry is adjusting to much higher predicted growth rates for software than for the hardware that it runs on, and forming partnerships with industrial users to understand their needs better.

All these trends are illustrated in current strategy at Matra Datavision, the biggest European-owned Cadcam supplier. And Michel Neuve Eglise, chairman and chief executive, is hoping for annual growth of 20-25 per cent over the next few years at the Paris-based subsidiary of Matra.

Achieving that, and pushing Matra Datavision up the US-dominated league table of big players in the industry, will depend on recent initiatives at the 13-year-old company, whose success has been built on its widely-respected Euclid-IS mechanical Cadcam software.

As Cadcam hardware becomes a commodity item, companies such as Matra are trying to boost the share of revenues represented by software. The in-phrase at Matra, therefore, is what Victor Waknine, president and chief operating officer, calls the "software factory" approach to help penetrate new markets and develop existing ones.

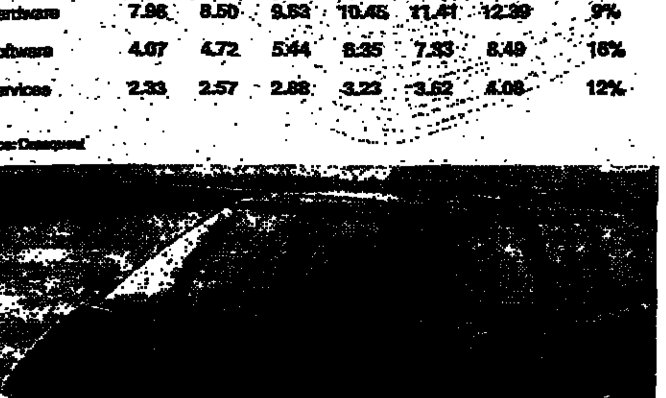
A key element is a new generation of Case (computer-aided software engineering) tools designed to build the company's own factory of applications software, help Euclid users change their applications, and provide new application solutions for independent software houses. The product, for complex assembly design, will be available next year.

A second initiative is a new entry-level solid-modelling system, Prelude/Solids, designed to attract companies currently using 2D or 3D-wireframe-based systems – surface modelling which is like stretching clingfilm across a wireframe but does not completely define an object in 3D as occurs with solid modelling. The ability, for example, to compute masses and moments of inertia makes solid modelling a powerful tool for reducing product development times.

Worldwide Cadcam market

	1990	91	92	93	94	95	Compound growth
Cadcam ($bn)							
All applications: all platforms	14.36	15.79	17.95	20.03	22.36	24.96	12%
Hardware	7.96	8.50	9.53	10.45	11.41	12.39	9%
Software	4.07	4.72	5.44	6.35	7.33	8.49	16%
Services	2.33	2.57	2.88	3.23	3.62	4.08	12%

Source: Dataquest



Matra is launching Prelude in the US – a good testing ground, says Waknine, for a mass-market product. It is designed to attack low-cost software such as AutoCAD, the Autodesk flagship product.

But Matra also has its eye on the emerging market for "conceptual engineering," where the very earliest design sketches can be captured on computer, thus saving more time in the product development process by eliminating the "back-of-an envelope" stage. Prelude's compatibility with Euclid-IS is an important element here, Waknine believes.

Prelude is being launched in the US to correct Matra Datavision's weak position in a market where it sees considerable growth for 3D solid modelling.

The US and Asia are the two main areas of planned expansion for the company, although other markets still have growth potential. The UK looks encouraging, with turnover up 40 per cent last year to £1.4m, and expected to rise to £2.4m in 1992. Currently 80 per cent of Matra's installed base is in Europe, 15 per cent in North America and 5 per cent in Asia, but Waknine hopes to grow the Asian and North American shares to 20 per cent each by 1995.

According to Matra, European manufacturers have realised the benefits of 3D solid modelling earlier than their counterparts in the US and Japan, because of the need for increased productivity in manufacturing, and education that has made possible a better grasp of the mathematical principles.

But US and Japanese demand has been strong in the past two years, says Waknine, and solid modelling is becoming mandatory in Japan. Accordingly, Matra is rapidly expanding its US distribution network, and last year it signed an agreement for NEC to distribute Euclid-IS in Japan.

Elsewhere in Asia, the company is negotiating two joint ventures, one in China and another with a big industrial concern outside China. It has begun co-operating with the Chinese space agency, and sees enormous potential even if it can convert only a small percentage of 20,000 engineers to Euclid.

Other regions are likely to require more patience, says Waknine. In the former Soviet Union, he says, large companies have realised the potential of solid modelling – helped by the unofficial import of pirated western software – but are restricted by financial difficulties.

Matra is exploring barter deals to enable it to sell to the former Soviet Union, and earlier this year took an indirect stake in Mazintergixi, a joint venture distribution company.

According to Dataquest figures, Matra is the world's eighth largest supplier of software in the mechanical Cadcam market for workstations, the most important hardware "platform," but Neuve Eglise has ambitions to push the company into the top five.

That could be tough, according to Petra Gartzen, Dataquest analyst. "Matra have a very good product and are doing the right things, but the mechanical Cadcam market is not showing the same growth rates as other sectors because of conditions in manufacturing. That makes it very difficult for any company to increase its market share."

However, Matra's greater emphasis on software for the mechanical market, which is forecast to grow twice as fast as the hardware, should help.

Matra is also expanding into the faster-growing architectural, engineering and construction (AEC) sector of Cadcam through a system developed by Framatome, the French power plant builder. Unlike many AEC systems, says Gartzen, the Framatome system is targeted towards plant design, where there are big opportunities in the European Community because of environmental legislation.

Multimedia beats a path to Hollywood

By Louise Kehoe

How would you like to play golf on the Augusta National course, with Jack Nicklaus and Arnold Palmer as your partners? They will be like old friends, exchanging comments with you on the tilt of the green. You will be able to do this without stirring from your arm chair and with no more exertion than flicking a few switches on a remote device.

Or choose a film from a catalogue of thousands and arrange to view it after dinner. Order a pizza if you don't want to cook tonight.

Welcome to the world of "interactive multimedia" – a confluence of computer, communications and consumer electronics technologies that promises to transform your television set into a multi-functional entertainment, information and communications device.

This is the vision that is spurring executives from US computer companies to beat a path to Hollywood. International Business Machines and Time Warner are said to be talking about a joint venture. John Sculley, chairman and chief executive of Apple Computer, is exploring synergies with the movie industry.

The huge potential of interactive TV is also the driving force behind AT&T's plans to enter the digital satellite broadcasting equipment market and forge alliances with cable television companies.

There are also start-up companies with big ambitions. TV Answer is developing a system that would allow customers to pay bills and order products. USA Video is testing a system that can send a film from a "video library" to a customer's TV over phone lines.

Interactive multimedia is not a new idea. Hardware and software companies have been talking about it for years but failed to identify a mass market. Industry debate has focused upon technical standards and whether the personal computer or the television should be the "platform" for multimedia.

Breathing fresh air into these long-winded arguments is a growing consensus that a relatively simple application of multimedia technology may be the key to creating mass-market appeal.

"Movies on demand", a service providing consumers with the opportunity to view at any time a film of their choice from a catalogue of thousands, is now seen as the "Trojan Horse" that will bring multimedia into the home.

By providing the convenience of any-time viewing and a far broader selection than the local video store, cable and broadcast television services aim to steal a large portion of the $14bn (£8bn) annual US video rental and sales market.

The critical technology for "movies on demand" is digital signal processing – the technology at the core of other multimedia applications. To pipe thousands of movies through a cable television network, or broadcast them via satellites to regional cable operators, the signals must be compressed, without loss of quality. At the receiving end the signal must be decoded to provide a high-quality image.

Once digital signal processors are in place, other applications become possible. These might include an electronic library, video games or educational programmes. Fibre optic cables that can carry a bigger load of signals than conventional copper cables may also play a part in bringing interactive multimedia to a mass audience. Switching systems, much like those used to direct traffic on telephone networks, will also be needed.

Satellite broadcast may also play a role, although in the US, where some 60m homes are connected to cable television systems, direct broadcast is not expected to be the primary method of delivering interactive TV signals to the home.

There are potential stumbling blocks to the development of interactive multimedia services. Although most of the technology challenges have been met, the cost of a signal processing device that would sit on top of the TV set is prohibitive – over $1,000.

In the US, regulatory issues might also prevent telephone or cable TV companies from expanding into each others territory.

Yet the momentum building behind interactive multimedia seems unstoppable. The advent of digital high-definition television, in the mid-1990s, with sharper pictures and clearer sound, can only accelerate the trend.

MANAGEMENT: MARKETING AND ADVERTISING

Grass is greener in the high street

John Thornhill says retailers are coming back into town

Shoppers love those massive out-of-town superstores because they can get everything they want in one go. Retailers love them because they are cheaper to run.

The arguments seemed so powerful that for many years, the big food retailers left small, high street shops in droves for vast sites on the ring road. The number of grocery shops has fallen in the last three decades from more than 100,000 to 40,000 and the current recession has continued to throw up casualties.

But it now seems that edge-of-town sites do not satisfy all shoppers – especially those without cars and the elderly. Retailers are realising that there is money to be made from efficient town centre chains. There are signs that the high street is coming back to life.

Some retailers, of course, have never deserted it and have defended their positions by offering premium products and service. Marks and Spencer runs a highly profitable chain of neighbourhood stores while John Lewis Partnership is still expanding its 99-store chain of Waitrose supermarkets.

The Kwik Save discount chain and the Iceland frozen foods business have also mainly stuck to traditional shopping centres. Even the bigger chains, such as Tesco and Safeway, are now returning to high streets with the benefit of their sophisticated distribution systems. Tesco is redeveloping the old Moss Bros site in Covent Garden in central London to launch what it describes as a "Metro" store.

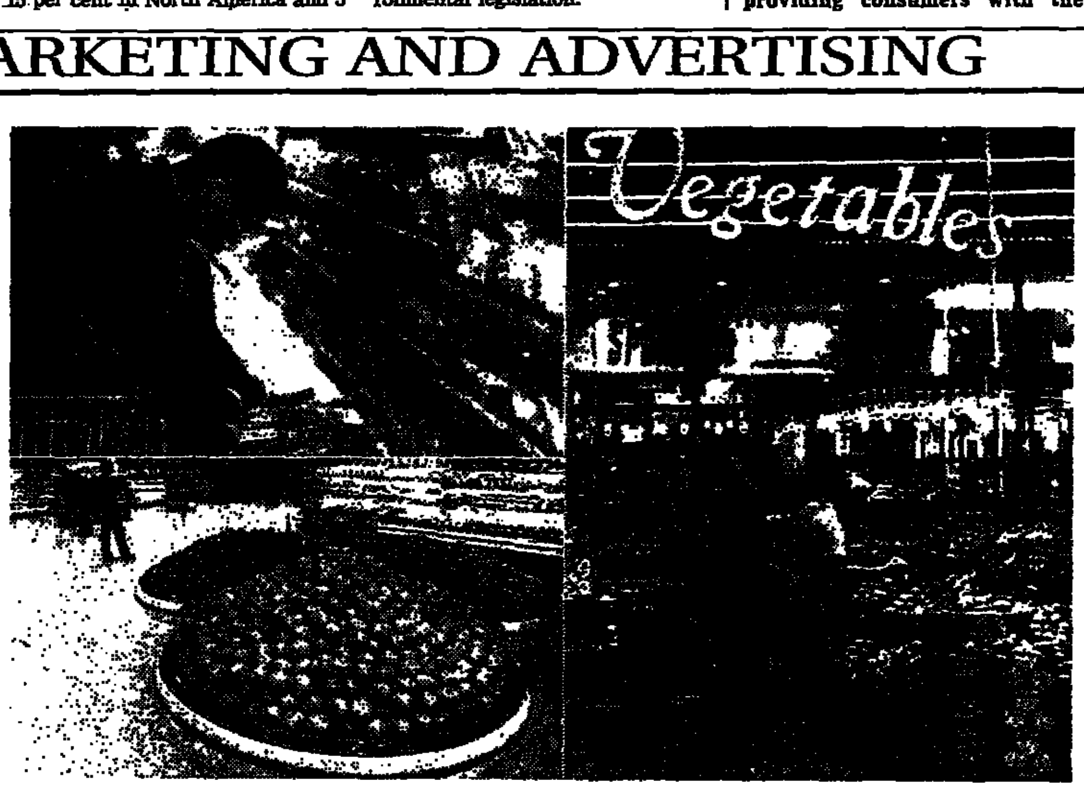
But one of the most ambitious attempts to create a completely new high street chain has been the launch of Somerfield, run by Gateway Foodmarkets, bought by the privately-owned Isosceles group three years ago.

Twenty-five Somerfield stores have already opened with a wide range of own-label goods. The number of stores will rise to 50 by next April giving the chain total square footage of about 1m sq ft. More will rapidly follow if the chain establishes itself. The man behind the idea is Bob Willett, Gateway's chief executive, who claims that Somerfield is one of the most heavily researched food chains ever launched, aimed at one layer of a segmenting food market.

The stores, which consist of 11 conversions from weary Gateway stores and 14 new sites, range from 12,000 sq ft to 26,000 sq ft. They offer fresh produce, expansive delicatessens and bakeries. They are well-designed with high-quality lighting and even boast barrel-ceilinged wine aisles complete with echo.

Willett wants the chain to offer a premium service. Staff are attentive and dress smartly either in boaters and traditional aprons or black blazers and striped trousers or skirts. The check-out staff pack the goods after scanning them at specially-designed tills.

The stores have an up-market, leisurely feel but Willett claims that prices are consistent with other Gateway stores. He prefers to refer to them as "up-value".



Retailers are realising that there is money to be made from efficient town centre chains

Willett says that converted Somerfield stores are performing well and have seen sales increases of more than 20 per cent. The average basket size of £16.30 was well ahead of the £8.80 achieved at Gateway. "Somerfield is focused on building the shopping basket by offering range and service," he says.

The birth of the new chain has been a brave move in a recession and has had its problems. Gateway, which runs 635 Gateway stores and 18 Food Giant discount superstores, recently reorganised its management structure around the three retail concepts, causing some friction.

"It has been painful as people have lost turf" Willett says.

While admiring the idea, industry analysts harbour doubts about Somerfield's heavy costs and question whether the indebted Isosceles can give the chain the backing it needs. Willett also accepts that it will take time before customers appreciate the Somerfield name and suggests the chain would double its turnover if it had the magical words Marks and Spencer emblazoned over its shop-front.

"The problem is that Sainsbury's and Marks and Spencer have been around for more than 100 years. We are as yet unknown," he says.

Jingles go only part of the way

Advertising has lost its way and needs to be reborn as a system of product information for consumers.

Bill Ziff, chairman of Ziff Communications Company which specialises in magazine publishing, believes that the current decline in advertising has not just been caused by the recession.

"What's occurring today is caused by one basic trend: a loss of confidence in advertising's power to persuade the consumer." This, Ziff told the recent Periodical Publishers' Association conference in London, had affected all media.

Consumers were increasingly turned off by "the search for the perfect jingle, the slogan so devoid of content that it could be about anything, the model with the happiest smile, the celebrity with the highest approval rating, the universal image to manipulate the presupposed mass-mind."

The transition to the more substantial advertising required by factually-driven purchasing decisions was already under way, Ziff predicted. It would tend to favour print and magazines over the electronic media.

The loss of confidence was caused by advertising's outmoded appeal to anachronistic notions of a mass market.

This was in stark contrast to the reality of the marketplace – the increasing sophistication of contemporary consumers and the fragmentation of once monolithic brand names into a host of customised lines and styles.

As ever greater variety pours out of the world's manufacturers, Ziff argued, "the advertising we carry continues to cling to the magic talisman of brand names in the outmoded belief that image can still override specific features and real price and value in the minds of knowledgeable consumers".

Advertising had lost its power over the consumer because of its banality.

The rebirth of advertising as an indispensable information system, Ziff added, would make product quality a viable investment strategy "by guiding highly-targeted buyer groups to the specific products that had the right pricing and features for them".

Raymond Snoddy

Enterprise seeks out holes in space

Gary Mead reports on new ways to monitor promotional spending

To watch 7 per cent of one's cash disappearing into a black hole each year might be thought madness.

Yet when it comes to advertising in the printed media, 7 per cent of booked advertisements do not appear at all, appear in the wrong format, at the wrong time, or in the wrong position. Given that UK expenditure on advertising in newspapers and other publications is some £4bn annually, some £280m of UK advertising might be vanishing, uncontrolled and unnoticed, into a void.

Advertisers and their agencies are under pressure to cut costs. Checking that print advertisements appear when and in a form which was paid for would seem an obvious step to take. Many do not.

Advouch has been in business for eight years. It handles the print advertisement verification for about 60 per cent of the leading British advertising agencies, checking advertising worth £600m annually. Tony Law, managing director, believes that of the remaining 40 per cent of agencies, "half do it themselves, the other half don't do it at all".

Law has identified that 7 per cent of his clients' advertisements are misplaced or forgotten altogether and believes this is probably an industry-wide phenomena. Advouch's business is to make sure that the gap is plugged and that advertisers and agencies are getting what they paid for.

The advertisements which fail to appear or appear incorrectly do so for a variety of reasons. According to Law, the problem is seldom incompetence or fiddling. Instead, printers suddenly find themselves with insufficient space and fail to run the advert, without alerting the advertiser or agency. In Law's experience, regional newspapers have the poorest record.

Between December 1991 and April 1992, he found that 10 per cent of his clients' regionally-placed ads were failing to appear or appeared incorrectly, against 5.3 per cent in national newspapers, 5.4 per cent in consumer magazines and 4.2 per cent in trade magazines.

The high-tech era has at last caught up with the humble billboard

Law calls his business the "spit and sawdust" end of the advertising world, although it is heavily dependent on computer technology. The system holds details on 12,153 publications and a multitude of cross-references between agencies and publications. Each month the 22 staff deal with between 60,000 and 80,000 individual advertisement bookings, relating to 6,236 advertisers and 15,141 products.

But does it really matter if advertisements do not appear on time, or at all? For large consumer goods manufacturers it is a debatable point but it can be crucial for recruitment advertising. Advouch's biggest client, Barkers LBW, an advertising agency which specialises in recruitment advertising, uses the service to check more than 20,000 advertisements a year; if a job advertisement fails to appear, Barkers – and its clients – know immediately; no-one applies.

Advouch sends each of its clients a weekly activity report with a bundle of vouchers stapled to publications in which their advertisements have appeared. Without a voucher from Advouch stating that the booked advert has appeared correctly, the advertising agency can refuse payment to the publication. The whole process is about establishing trusted verifications, thus reducing cash-flow problems for all concerned.

Computer technology has enabled Advouch to find a niche in an increasingly complex market; it is also enabling marketing directors to find their own niches among consumers who blithely pass by the 80,000 outdoor poster sites in Britain. NOP Posters, part of the MAI information services group, has just launched a new service with its subsidiary, Pinpoint Analysis.

Called Posterpin, the service costs between £15,000 and £40,000 a year. For that, subscribers get a desk-top processor from which to obtain a wide range of information on poster sites including details of consumer expenditure, wealth indices and consumer demographics.

They can also scan maps of a specified area, pinpointing poster sites, who owns them, how many panels they have and their availability.

Users of the system will be able to call on a database to give the numbers of – for example – premium canned lager drinkers living in the area. According to Pinpoint the new service "offers not just a mapping procedure but also useful marketing information".

FT LAW REPORTS

New York rejects UK judgment

BACHCHAN v INDIA ABROAD PUBLICATIONS INC
New York Supreme Court: Judge Shirley Fingerhood: April 13 1992

A UK libel judgment obtained by a private person against a media defendant in respect of a news report of public concern, is unenforceable in New York in that, having been obtained under English law which imposes the burden of proving truth and justification on the defendant, it fails to satisfy US standards for protection of free speech and the press under which the plaintiff must prove falsity and fault.

Judge Shirley Fingerhood so held when giving judgment for the defendant, India Abroad Publications Inc, on a motion by the plaintiff, Mr Ajitabh Bachchan, to enforce a libel judgment obtained by him against India Abroad in the UK.

HER HONOUR said that judgment was granted in the UK High Court against the New York operator of a news service.

The story held to be defamatory was written in London, and wired to the news service in India. It was reported in two Indian newspapers, copies of which were distributed in the UK. It was also reported in an issue of India Abroad in New York, and an edition was printed and distributed in the UK by a subsidiary.

The story stated that a Swedish daily newspaper, Dagens Nyheter (DN), had reported that Swiss authorities had frozen an account belonging to Mr Bachchan to which money was transferred from a coded account into which commissions paid by Bofors were deposited.

Bofors was a Swedish arms company which, some time before, had been charged with paying kickbacks to obtain a large munitions contract with the Indian government.

Mr Bachchan brought an action against DN in London at the same time as it sued India Abroad. DN settled and issued an apology. The jury assessed £40,000 damages against India Abroad and its reporter.

As authorised by section 5303 of New York's Civil Practice Law and Rules (CPLR), Mr Bachchan sought to enforce that judgment by motion for *summary judgment* in lieu of complaint.

Entry of judgment was opposed on the ground that it was imposed without the safeguards for freedom of speech and the press required by the First Amendment to the US Constitution and article 1 section 8 of the Constitution of New York State.

India Abroad asked the court to reject the judgment as repugnant to public policy, which was a ground for non-recognition of foreign judgments under CPLR 5304(b)(4).

If the public policy to which the foreign judgment was repugnant was embodied in the First Amendment or the free speech guaranty of the New York Constitution, refusal to recognise the judgment was "constitutionally mandatory".

Under English law any published statement which adversely affected a person's reputation was *prima facie* defamatory. A plaintiff's only burden was to establish that the words complained of referred to him, were published by the defendant, and bore a defamatory meaning. Statements of fact were presumed to be false and the defendant must plead justification.

English law did not distinguish between private persons and public figures or those involved in matters of public concern. None were required to prove falsity of the libel or fault on the part of the defendant.

No plaintiff was required to prove that a media defendant intentionally or negligently disregarded proper journalistic standards in order to prevail.

The defendant had the burden of proving not only truth but also of establishing entitlement to qualified privilege for newspaper publications and broadcasters where the matter published was "of public concern" and publication was "for the public benefit" (section 7, Defamation Act 1952).

India Abroad argued that English defamation law failed to meet US constitutional standards because Mr Bachchan, a friend of the late Rajiv Gandhi, and the brother and manager of a movie star and former member of parliament, was a public figure.

In *New York Times v Sullivan 376 US 254, 279-280 (1961)*, the US Supreme Court ruled that to recover damages for defamation a public official must prove "actual malice". That burden of proof was placed on public figures who sued media defendants in *Curtis Publishing v Butts 388 US 130 (1967)*.

It was unnecessary and inappropriate to decide whether Mr Bachchan, an Indian national residing in England or Switzerland, was a public figure.

In *Gertz v Robert Welch 418 US 323,347 (1974)*, the court held that a private figure could not recover damages for defamation without showing that a media defendant was at fault.

In *Philadelphia Newspapers v Hepps 475 US 767,775,777*, Justice O'Connor stated that when the speech at issue was of public concern but the plaintiff was a private figure the Constitution supplanted Common Law standards, "but the constitutional requirements are ... less forbidding than when the plaintiff is a public figure".

Finding the plaintiff to be a private figure and the newspaper article to be of public concern, the court held that "the Common Law's rule on falsity – that the defendant must bear the burden of proving truth must ... fall here to a constitutional requirement that the plaintiff bear the burden of showing falsity, as well as fault".

India Abroad's publication related to a matter of public concern. The affidavits and documents revealed that the wire service report was related to an international scandal which touched leading participants in Indian politics and was reported in India, Sweden, the US, the UK and elsewhere.

Placing the burden of proving truth on media defendants who published speech of public concern had been held unconstitutional because fear of liability might deter such speech.

In *Hepps*, it was said that "because such a 'chilling' effect would be antithetical to the First Amendment's protection of true speech on matters of public concern" a private figure plaintiff must show the speech was false before recovering against a media defendant.

The "chilling" effect was no different where liability resulted from enforcement of a foreign judgment obtained where the burden of proving truth was upon media defendants.

Accordingly, Mr Bachchan's failure to prove falsity in the UK made his judgment unenforceable in the US.

There was another reason why enforcement would violate the First Amendment. In the UK, a plaintiff was not required and did not meet the "less forbidding" constitutional requirement that a private figure must show that a media defendant was at fault.

New York's standard for liability in actions brought by private persons against the press was set forth in *Chapadeau v Utice Observer-Dispatch 38 NY2d 196, 197 (1975)*.

Where the content of the article was arguably of legitimate public concern reasonably related to matters warranting public exposition, the party defamed might recover. However he must establish "that the publisher acted in a grossly irresponsible manner".

UK courts did not require a plaintiff to prove that a press defendant was at fault. Mr Bachchan certainly did not establish that India Abroad was "grossly irresponsible".

The UK and the US shared many Common Law principles. Yet a big difference between the two jurisdictions lay in the UK's lack of an equivalent to the First Amendment.

The protection of free speech and the press embodied in that amendment would be seriously jeopardised by entry of foreign libel judgments granted pursuant to standards deemed appropriate in the UK but considered antithetical to the protection afforded to the press by the US Constitution.

The motion for summary judgment in lieu of complaint was denied.

For Mr Bachchan: Stephan Skoufalos (Chalos & Brown, New York; Sarosh R Zaiwalla, London).

For India Abroad: Laura R Handman (Lankenau Kovner & Bickford, New York).

Rachel Davies

Barrister

Law reports now appear on Wednesday, Thursday and Friday

PEOPLE

New chairman for C&G

John Bays, 50, has been appointed chairman of the Cheltenham & Gloucester Building Society, which has assets of £14.8bn and is one of Britain's fastest growing financial institutions.

Bays, a chartered accountant, is a director of Sharpe & Fisher, a small Cheltenham firm of builders' merchants, and has sat on the C&G board since 1975. He has been vice-chairman of the society since last year and takes over from Stephen Price, 67, chairman for the past five years. Price, a retired practising chartered accountant, has been a director of C&G for over 30 years and will remain on the board.

C&G has been growing faster than many of its rivals and through a series of acquisitions has become a significant force in the industry. Its undoubted success owes much to the drive of its chief executive, Andrew Longhurst, who is thought to be the highest paid executive in the industry. However, in common with some other fast growing societies, there has been concern that its board of non-executive directors is not strong enough to control a powerful chief executive.

Typically, building society boards have been composed of local worthies, rather than well-known businessmen. C&G has taken steps to strengthen its board in the past year with the appointment of Timothy Brookes, the 42-year-old chief executive of In Shops, and Douglas Strachan, 58, a former chief executive of Allied Breweries. Yesterday, it reappointed Alastair Ross Goobey, 46, James Capel's chief investment strategist, who left the board last year when he was made a special adviser to Norman Lamont, the chancellor of the exchequer.

Jeff Harris (left), the new chief executive of UNICHEM following Peter Dodd's retirement at 55 this week, forecasts the new style at the top as "plus ça change". An accountant by training, he joined UniChem in 1985 and was made finance director the following year. He points out that, having "been at Peter's side" as the pharmaceutical wholesaler evolved into a major public company "it would be pretty irrational to want to wreak havoc when the business is running extremely well".

As Unichem looks to expand further into Europe, Harris, 44, admits that "being a different generation" means that he does have ambitions to draw more people into the company's decision-making process. "There are a lot of very able people below board level who should be involved," he says.

The succession was made clear last autumn when Harris was promoted to deputy chief executive. Scuba-diving enthusiast Dodd, who is off to spend the first four months of his retirement submerged in the Caribbean, drew attention before he left to the undesirability of chief executives boasting good golf handicaps. Harris, needless to say, does not play golf.

■ **Chris Tennant** has become a partner of PHILDREW VENTURES.

■ **Alasdair McKerrell, Malcolm Moir and Todhunter Bensen** have become partners of Cazenove.

■ **Glen Grant, Andrew Pisker, Carolyn Moses, Gary Weinstein, Katherine Klein and Greg Fitzgerald** have all been appointed managing directors at LEHMAN BROTHERS INTERNATIONAL.

■ **Brian Colls**, director of technical services, is appointed director of financial services division at EXTEL.

■ **Richard Cooper** is appointed to the board of TULLETT & TOKYO FOREX (LONDON).

■ **Roy Dinsdale** is appointed head of OTC equity derivatives marketing and sales at DAIWA EUROPE; he moves from Nippon Credit International.

Bystram: food for thought at Adas

Adas, the government's Agricultural Development and Advisory Service, has appointed as chairman Charles Bystram, a director of Stakis. The 62-year-old Bystram brings substantial food industry experience to Adas; he was chairman of Geest and before that a director of United Biscuits. He will help guide the transition of the former government department into a commercial business – Adas became an independent executive agency last month.

Chief executive Julia Walsh says: "It's vital that primary producers, processors and retailers co-operate much more closely if the industry is to survive against competition from abroad. By appointing Bystram, Adas is nailing its colours to the mast and showing the whole industry that we mean business."

Adas was launched as an agency with a brief of providing strategic, business and technical consultancy to all involved in land-based industries – food producers, processors and retailers, farmers and growers, government ministries, planners, land-owners and leisure enterprises. Adas has 1,700 consultants and the biggest specialist R&D base in the country.

The chairmanship is one of three key posts which are to be filled from outside. Christopher Herring is to become finance director after six years of consultancy with Touche Ross, including work with other government agencies. The appointment of a marketing director has yet to be announced.

Morley and the trainers

At 63, Peter Morley, the new chairman of the National Council of Industry Training Organisations admits to having been a workaholic for more than 40 years.

NCITO is the umbrella body which represents the views of more than 100 Industry Training Organisations to government and other agencies.

ITOs are the independent voluntary bodies which are responsible for promoting good training within most industrial sectors. Morley says he aims to build on the work of his predecessors and to raise the profile of NCITO.

Since his retirement towards the end of last year after 27 years with Tesco, where he

was group personnel director, he has been occupied six days a week. As well as being a magistrate and sitting on industrial tribunals, he is chairman of the National Retail Training Council and the British Association of Commercial and Industrial Education in addition to enjoying a variety of hobbies.

His business baptism gave him a taste for overwork. At 22 he suddenly found himself, through death in the family, in charge of two furniture shops. It was not a job for which two years of national service had prepared him. However, he ran the business successfully for 11 years and then sold it to Tesco.

He regrets not going on to higher education and becoming his own boss before he had worked for anyone else. He says it is not a career path he would recommend.

Opera/Max Loppert

I puritani

Bellini's last opera comes back to the Royal Opera House after an absence of 28 years. The return promotes good cheer on many levels. On a simple one, there was on Tuesday the unfamiliar pleasure of hearing a Covent Garden audience brim over with noisy enthusiasm long after the first-act curtain had fallen and the house-lights had risen.

More significantly, there was the immense reward of hearing and seeing a marvellous opera worthily done. This is a temperate appraisal; and indeed, there are flaws to regret in the performance – small flusters in the stage presentation, clumsy chorus drill (compensated for by choral singing more vigorous than the recent house norm), one big disappointment in the cast-list.

On the whole, though, the experience surges to grand, house-filling life in a way that restores our vision of *I puritani* as one of the peaks of Romantic opera. Restoration of the sort is no simple matter. This is an opera written for a quartet of great singers, not just a prima donna; a tissue of exquisite vocal melodies not neatly parcelled in discrete solos but made part of expansively developing structural patterns; and a Romantic music-drama, often derided for its soft-headed way with English history and its lapses of simple logic, that is nevertheless capable of carrying an extraordinarily powerful emotional charge.

It needs passion, technical finesse, commitment, clearheadedness. It doesn't often come off. It did on Tuesday. June Anderson, Giuseppe Sabbatini and Andrei Serban, producer of the 1982 Welsh National Opera *Puritani* staging here adopted by Covent Garden, are the chief architects of that achievement. The force of the general argument against borrowed productions – that they tend to lose artistic life-blood away from their original circumstances of generation – is softened (though not essentially counteracted) by the occasional successful borrowing of this kind.

It looks handsome on the Royal Opera stage: a marriage of clean lines and vivid images, Civil War verismo and heightened Romantic psychodrama. It unfolds with urgency graded to match the atmospheric intensities of the score. Serban himself has not been around to supervise the transfer, but in his place Jonathan Eaton skilfully recreates the complexities of motivation in which the original show abounded. The scene with the wedding veil into which the polonaise is studded is played with chamber-ensemble closeness of focus; around the abandoned Cinderella coach (a splendid poetic image) that forms the centrepiece of Act 3, a deeply moving drama of healing and reconciliation is built up.

The production inspires Miss Anderson: that much is plain from the spontaneity and unforced glow of her characterisation, easily the freshest and most appealing she has given in London. Elvira is a role she has sung in many theatres: that much is also plain from the sheer expertise with which she "plays" the vocal line, making the most not just of its bravura but of its simplest expressive effects, tossing in decorative details and high notes with a lightness that adds its own airy eloquence to the drama. The amplitude of her soprano tells wonderfully in ensembles; in the opera's long middle act one begins to note its lack of colour variety and warmth – but also the deftness with which she varies lyrical sentences and paragraphs.

Alastair Muir

Inspired by the production: June Anderson as Elvira

Sabbatini is an Italian tenor with style. The voice is not large, not startling in natural beauty of timbre; but it possesses virile Italianate vocal "juice", and is used with a care for honeyed elegance of phrase-shading and emotionally affecting utterance that caresses Arturo's music, highlights its most ardent expressive facets. His treatment of the extravagant high notes put in for Rubini – not the celebrated famous F sharp but all the Cs, C sharps and Ds – shows admirable taste; he never yells, never blares, always maintains the musical shape. With his glittering eyes, sharply Roman profile and alert bearing he makes the species of Bellini tenor hero seem one of opera's most elevated.

The remaining members of the *Puritani* quartet are less remarkable. Robert Lloyd's bass counsellor is sung and acted with gentleness, authority and distinction, in tones too monochrome to do full justice to the Chopin-esque elegy of "Cinta di fiori". I fear the much-hyped Dmitry Hvorostovsky has been ill-advised to tackle so demanding a bel canto baritone role as Riccardo at this point in his vocal development. He looks handsome, and prowls the stage with generalised Byronic fervour; he is good at suave *cantabile* lying in mid-range. What he lacks, worryingly, is a secure, resonant top; for the ringing martial close to Act 2 the big guns are audibly missing.

Daniele Gatti, a livewire Italian conductor, seems determined to explode singlehandedly all past criticisms of Bellini's orchestration. He gets bright, forward orchestral playing with a firm rhythmic profile – keen strings, particularly. On Tuesday his interventionist beat tended to drive the singers hard, nipping at their vocal heels, inhibiting the full flow of their phrase-shapes. Enthusiasm of the sort is a fault on the right side: Mr Gatti plainly loves the opera, and urges the audience to share his passion.

Royal Opera House, Covent Garden. In repertory until June 4

Theatre/Malcolm Rutherford

The Rules of the Game

Pirandello's *The Rules of the Game* is such an elusive play that you must catch it wherever and whenever you can, including the new production at the Almeida.

The rules are pretty flexible. Basically they come down to observation and survival. Leone Gala, the husband who has generously moved out of his own house in order to allow his wife to spend more time with her lover, explains: "If I gave in to any of my feelings, I wouldn't be around to see how the game develops."

On the other hand, Leone does have feelings which are not too deeply submerged. He admits to being hurt by his wife casting eyes elsewhere, and when he applies the rules of the game, he does so quite ruthlessly. He allows himself to be drawn into a duel, for which he has no direct responsibility, then arranges for the lover rather than himself to be killed.

There are several ways of playing *The Rules*. It can be a social comedy with a touch of Wilde and Coward, but also a psychological drama about a neurotic wife whose selfish husband fails even to try to understand her. Pirandello's skill lies in repeatedly moving the goal posts, for this is a continental game where there are no level playing fields. There is some Wilde, some Ibsen. Only Pirandello can put the whole lot together.

Jonathan Kent's direction of this new, but not significantly different, version of the play by David Hare, adds an English gloss by setting the first act in Pinterland. Instead of a small town in Italy, the initial action takes place in what looks like a smart flat in Islington: tall white walls, drinks in the background and not much else in the way of furniture – in other words, what is becoming a familiar Almeida set.

There is an unnecessary degree of intensity in the opening exchanges. Silia, the wife, shouts at her lover, Guido, when softer distress signals would be more appropriate. Guido, who is meant to be elegantly dressed, pads about barefoot, shirtsleeves rolled up, braces and no tie. There are quite a lot of pauses. One fears the worst.

Pirandello, however, cannot be put down like that. From the entry of Richard Griffiths as the husband, the action perks up. He is a very thoughtful fellow, very fat, enjoys eating his own cooking and prides himself on his intellect. He scores points off the lover and still casts a spell over his wife. In the bachelor flat to which he has removed himself there are a couple of splendid characters: Filippo, his servant, and Dr Spiga, his flat-mate.

One of the best scenes in this production comes when Leone and Filippon continue to beat eggs in full chef's dress while talking about philosophy and entertaining the lover. The play is full of symbolism, of which egg-beating is only a part. It requires a light touch which the the Almeida performance does not always have. Nicola Pagett remains too rigidly intense as the wife. David Yelland as the lover is not the languid afternoon man that he ought to be. But there is compensation in the master-servant relationship between the egg-beaters. John Normington is a superb Filippo.

The production could be improved overnight by speeding it up and going for a soufflé, not a dumpling.

Almeida Theatre until June 27. (071) 359 4404.

Cinema/Stephen Amidon

When Hitler Youth paid off

EUROPA, EUROPA
Agnieszka Holland

THE DARK WIND
Errol Morris

MEMOIRS OF AN INVISIBLE MAN
John Carpenter

SCORCHERS
David Beaird

It would be hard to believe the events depicted in *Europa, Europa* if it were not for the fact that they are based on a true story. Polish director Agnieszka Holland's powerful film tells the tale of Solomon Perel, a German Jewish boy who survives the Holocaust by passing himself off as a Hitler Youth. Perel (played with near perfect credibility by Marco Hofschneider) is 13 when his family is forced to flee from Berlin to Poland after his sister is beaten to death by Nazis.

When war breaks out, he flees further east, winding up in a Russian orphanage, where he gets a crash course in saving his skin by allowing himself to be indoctrinated by the Bolsheviks. After Hitler attacks the Soviet Union, Perel is once again forced to switch allegiances upon being captured by an SS unit.

By virtue of quick thinking and sheer luck he becomes a celebrated German soldier, earning himself a place at the elite school for Hitler Youth. There, he must somehow hide his identity from his classmates, even going so far as to try to uncircumcise his penis in a crude and nearly fatal auto-operation. It is only with the defeat of the Nazis and a miraculous reunion with his last surviving family member that he can reveal his true self.

Holland steers us through this difficult story with a surprisingly deft touch, balancing its true horror with darkly humorous sequences, such as the moment when Perel is credited with capturing a Russian squad after trying to surrender to them. There is something ironically apt about the fact that it is his penis that constantly threatens to give him a way, as if the Jewish manliness his forefathers bequeathed him is the one thing he cannot betray. In the end, it is what saves him from going over altogether to the enemy, represented most potently by the pretty young *madchen* who offers herself to him in order that they can make a little Aryan bundle for Adolph.

The film is by no means flawless – the sequences in which Perel dreams of a dancing Stalin and a secretly Jewish Hitler seem flat and contrived. In the end, however, Holland has fashioned a subtle and provocative film, made even more impressive by the director's refusal to moralise on Perel's story. Though free will plays just as big a part in the boy's survival as fate, one is never asked to see him as either a hero or a traitor. Hofschneider's remarkable performance exorcises all traces of calculation and cunning from the young hero. He is a pawn of history who somehow manages to avoid capture. Perel gains nothing from his deception except his life, and, by doing so, manages to score a victory, however dubious, over those who would have taken it from him.

The Dark Wind is Hollywood's first attempt to bring to the screen one of Tony Hillerman's superb detective novels, noted not just for their skill and integrity but also for their unique setting – the Indian Country of America's Southwest. Hillerman's sleuth is Officer Jim Chee of the Navajo Tribal Police (played here by Lou Diamond Phillips), a detective who balances his interest in police work with a desire to master the "old ways" of his people's culture and religion. Here, Chee finds himself assigned to a seemingly routine stakeout, only to be drawn into a complex tale of murder, witchcraft and drug smuggling. To make matters worse, he soon becomes a suspect in the case, pursued by malevolent Federal agents as well as the real killer.

Despite the promising and timely material, however, the film gets entangled in the undergrowth of its own complexity. This is not to say that there are not good things at work here, most notably Phillips's performance, which manages to show how the qualities that make Chee a good Navajo – patience, acuity, respect – also make him an effective cop, a man who is able to feel the dark wind of crime that blows among his people. And the film makers deserve full marks for their unsentimental presentation of the traditions of the Navajo people.

The problem is the direction of Errol Morris, a celebrated documentary maker whose most famous film, *The Thin Blue Line*, was a painstaking examination of a real life crime for which the wrong man had been imprisoned. Unfortunately, Morris's characteristic deliberation and exhaustive thirst for facts bog down this fictional detective story. All too often, he misses the desert for the cactuses, providing slogging exposition at just the moments he should be jolting the viewer along. It is a style that is too detailed to make for gripping drama. The result is a movie as bloodless as a corpse left too long in the sun.

★

Memoirs of an Invisible Man is another film that suffers from a lack of flesh and blood. In it, a strangely subdued Chevy Chase plays a callow stockbroker who manages to get himself zapped by an experimental ray that makes him invisible. Far from providing the voyeuristic satisfaction such a condition might seem to promise, this transfiguration brings him nothing but trouble, primarily in the form of a wicked CIA agent (Sam Neill) who wants to recruit Chase for his obvious espionage advantages.

Director John Carpenter seems to have given up on the sci-fi and thriller aspects of the film altogether, straining credibility from start to finish with a series of illogical leaps. Instead, he focuses on special effects and sightless gags, resulting in a few nice touches, such as the transparent Chase chewing gum or inhaling cigarette smoke. But the overall feeling the film leaves you with is one of missed opportunities – when Chase finally beds the woman of his dreams (Daryl Hannah), we are given no sense of the pros and cons of invisibility in the sack. The whole thing ends up being a rather perfunctory rehashing of Carpenter's far superior *Starman*. Indeed, the film's most convincing display of invisibility comes from Hannah herself, who proves yet again that her acting ability cannot be detected by the human eye.

A little bit of on-screen invisibility would have come in handy during *Scorchers*. Set on a summer's night in backwoods Louisiana, the movie intertwines two separate stories of innocence and lust, one involving a young bride who hides under the bed from her earnest young husband, the second depicting another youthful wife as she goes gunning for her man and the prostitute he has been frequenting. For good measure, there is also a nearly incomprehensible subplot about two feuding old codgers who end up dancing to Mahler around a jukebox (don't ask).

Writer/director David Beaird seems to be operating under the fallacious assumption that if he throws in equal measures of crudity and sentimentality then he will come up with something that is neither. The result is an abrasive, gooey film that manages to make you wonder what Beaird expects the audience to feel. Veteran cast members Faye Dunaway (as the good-hearted whore), James Earl Jones (splenetic bartender) and Denholm Elliott (town drunk) seemed to have realised that something was amiss here, each turning in performances so loaded with self-parody that you can forgive them their presence in so misguided a production.

Turnage's 'Leaving'

Among the younger generation of British composers none has found himself a more privileged position than Mark-Anthony Turnage. As Radcliffe Composer in Association to the City of Birmingham Symphony Orchestra he has not only a fine orchestra and concert hall at his disposal, but also the possibility to try out his new works while they are still at the drawing-board stage.

The latest score to come off the drawing-board is *Leaving*, which had its first performance at Symphony Hall in Birmingham on Saturday. As it happens, this is not an orchestral work at all, but a choral piece, sombre and dignified, a mature and fully polished undertaking in every way. The young gun who ambushed audiences unprepared for the ferocity of his opera *Greek* has here given way to the serious and unhurried thinker.

His theme is the brevity of man's life, explored through the words of five poets from John Donne to Sylvia Plath. As in the best of such pieces there is a variety of styles and attitudes: a haunting lullaby to a poem by W.H. Auden, conjuring its nocturnal spell over an irregular rocking rhythm, is followed by a crisp and sardonic Stevie Smith setting. The skill on Turnage's part is to give the whole a convincing unity of mood.

The score is also well organised, with that special gift so important in a young composer of hitting upon a recognisable musical idea and using it to its full value. In Stevie Smith's "Drowning" a swirling motif holds the movement together, working its way up through the instruments, starting on piano, trumpets and xylophone, until it creates turbulent waters that overwhelm the music, leaving only the distant cry of the drowning man.

Those growling low sonorities and occasional outbursts from unfettered saxophones are fingerprints of the Turnage we know already. He throws adventurous sounds the way of the instruments in his small orchestra, more than he does to the choir, and it is unlikely that the relatively straightforward choral parts in *Leaving* posed many problems to the CBSO Chorus under Simon Halsey. The two solo voices were Helen Walker and Andrew King, soprano and tenor.

The new work's depth of feeling, a public warmth of spirit reminiscent of Tippett, lingered through the interval. Then, in the second half, the CBSO and Sian Edwards dispelled it all too quickly with Tchaikovsky's Sixth Symphony, not very well played, as the orchestra was coming on cold. The performance only took off where speed beckoned and then it became fast and furious with almost careless abandon.

Richard Fairman

INTERNATIONAL
ARTS GUIDE
TODAY'S EVENTS

■ ATHENS

Concert Hall 20.30 Ralf Weikert conducts Dresden Philharmonic Orchestra in works by Wagner, Weber and Richard Strauss, with an alternative programme on Sun. Tomorrow, Sat and Mon: Strauss' Elektra with casts including Hildegard Behrens, Eva Randova and Nadine Secunde (722 5511)

■ BERLIN

CONCERTS
Philharmonie 20.00 Michel Plasson conducts the Orchestre du Capitole de Toulouse in Bizet's Symphony in C, Schumann's Piano Concerto (François René Duchable) and Franck's D minor Symphony. Tomorrow and Sat: Zubin Mehta conducts the Berlin Philharmonic in Beethoven's Triple Concerto and Strauss' Ein Heldenleben (West Berlin 2548 8232). Sun and Mon: Frans Brüggen conducts Bach, Mozart and Schumann (302 7242). Tomorrow in Schauspielhaus: Milan Horvat conducts Mahler's Das Lied von der Erde. Sat, Sun, Mon: Yuri Simonov conducts Strauss, Vieuxtemps and Franck (East Berlin 2090 2156)
OPERA
Deutsche Oper 19.30 Carlo Rizzi conducts Jerome Savary's new production of L'italiana in Algeri, also Mon. Tomorrow: Tosca with Maria Guleghina and Giacomo Aragall. Sat: Roland Petit's ballet Les Intermittences du Coeur. Sun: Le nozze di Figaro with Margaret Marshall and Catherine Malfitano (West Berlin 3410 249)
Staatsoper unter den Linden 19.00 Die Fledermaus. Tomorrow: Il barbiere di Siviglia. Sat: Les Contes d'Hoffmann. Sun: Tosca with Anna Tomowa-Sintow (East Berlin 2004 762)
Komische Oper 19.00 *Rigoletto*. Tomorrow: Entführung. Sat: Giustino. Sun: Cav and Pag (East Berlin 2292 555)

■ CHICAGO

Orchestra Hall 20.00 Georg Solti conducts the Chicago Symphony Orchestra and Chorus in Haydn's The Seasons. Repeated tomorrow, Sat and next Tues. Sun afternoon: piano recital by Ian Hobson (435 6666)

■ LONDON

THEATRE
● In the Midnight Hour: Philip Ryan's musical play celebrates the 1960s clubland sound of Motown Soul. Until July 7 (Young Vic 071-928 6363).
● The Rules of the Game: Pirandello's rarely-performed 1918 sardonic comedy, with Nicola Pagett, Richard Griffiths and David Yelland. Until June 27 (Almeida 071-359 4404).
● Loot: Joe Orton's wild black farce directed by Peter James. Until June 6 (Lyric Hammersmith 081-741 2311).
● The Blue Angel: Kelly Hunter takes on the mantle of Marlene Dietrich as the night club singer who captivates the respectable Professor Raat. Trevor Nunn directs Pam Gems' adaptation of the Heinrich Mann novel. Now previewing, opens next Wed (Globe 071-494 5065).
● Le Bourgeois Gentilhomme: Nick Dear's new version of Molière's comedy of manners, directed by Richard Jones (National Theatre 071-928 2252).
● For ticket information about all West End shows, phone Theatreline from anywhere in the UK: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962
MUSIC
Royal Festival Hall 19.30 Vladimir Ashkenazy conducts the RPO in Messiaen's Turangalila Symphony. Tomorrow: Diamanda Galas blues evening. Sat: Young Musicians Symphony Orchestra (071-928 8800). Tomorrow in Barbican: Gianluigi Gelmetti conducts the BBCSO (071-638 8891)
Queen Elizabeth Hall 19.45 London Sinfonietta gives world premiere of James MacMillan's Sinfonietta, plus two Schnittke concertos. Sun: song recital by Rosalind Plowright (071-928 8800)
Purcell Room 20.00 Song recital by Galina Gorchakova, accompanied by Ian Burnside (071-928 8800)
Coliseum 18.15 Michael Lloyd conducts David Pountney's production of Don Carlo, with Rosalind Plowright and Edmund Barham. Tomorrow: Madama Butterfly. Sat: John Buller's new opera The Bacchae (071-836 3161). Tomorrow at Covent Garden: I Puritani with Dmitri Hvorostovsky and June Anderson. Sat: La bohème (071-240 1066)

■ MADRID

Auditorio Nacional de Musica Tonight's concert by the Madrid Chamber Orchestra consists of orchestral transcriptions by Manuel de Falla. Tomorrow, Sat and Sun: Antoni Ros Marba conducts the Spanish National Orchestra in works by Mozart, Aracil, Berg and Beethoven. Also on Sat: Libor Pesek conducts Royal Liverpool Philharmonic Orchestra and Choir in Mahler's Eighth. Sun and Mon: Riccardo Muti conducts the Philadelphia Orchestra (337 0100). Tomorrow at Teatro Lirico La Zarzuela: world premiere of Belisa, new opera by Miguel Angel Coria, in a double bill with Ravel's L'Heure Espagnole (429 8225)

■ NEW YORK

Avery Fisher Hall 20.00 Kurt Masur conducts the New York Philharmonic in a programme including the New York premiere of Ellen Taaffe Zwilich's Flute Concerto (Jeanne Baxtresser) and the US premiere of Jacques Hetu's Trumpet Concerto (Philip Smith). Repeated tomorrow, Sat and next Tues (875 5030)
Metropolitan Opera *20.00* American Ballet Theatre in La Bayadère, also tomorrow, Sat and Mon. Next week: Coppélia (362 6000)
State Theater 20.00 City Ballet in choreographies by Balanchine and Robbins. Repertory performances continue till end of next week, except Mon (870 5570)

■ PARIS

THEATRE
● Greek: Steven Berkoff's setting of the Oedipus myth in proletarian London, directed by Jorge Lavelli. Until June 21 (Théâtre National de la Colline 4366 4360).
● La Ronde: new production of Arthur Schnitzler's fascinating, dance of seduction (Théâtre de la Main d'Or 4805 6789).
● Life is a Dream: a philosophical tale (1635) by Calderon de la Barca, the most polished dramatist of Spain's golden age. Until June 14 (Théâtre National de l'Odeon 4325 7032).
● Twelfth Night: Shakespeare's comedy directed by Jerome Savary. Until June 20 (Théâtre National de Chaillot 4727 8115).
MUSIC/DANCE
Théâtre des Champs-Elysées 20.30 James Conlon conducts the Orchestre National de France in Arvo Pärt's Second Symphony, Tchaikovsky's First Piano Concerto (Horacio Guttierez), Debussy's Le Martyre de St Sebastien and Ravel's second Daphnis et Chloé suite. Repeated tomorrow at Bobigny (4720 3637)
Opéra Comique *19.30 Der* Zigeunerbaron, production from Vienna. Daily except Mon till May 23 (4286 8883)
Palais Garnier 19.30 Two new choreographies by Odile Duboc and Daniel Larrieu. Also tomorrow, Fri and Sat (4017 3535)

■ ROTTERDAM

De Doelen 20.15 Valery Gergiev conducts the Rotterdam Philharmonic Orchestra in works by Rimsky-Korsakov and Berlioz. Repeated tomorrow and Sun afternoon (413 2490)

■ VIENNA

Staatsoper 19.30 La traviata. Tomorrow: Der Rosenkavalier with Kiri Te Kanawa. Sat: first night of new production of Tchaikovsky's Queen of Spades conducted by Seiji Ozawa, with Mirella Freni, Martha Mödl and Vladimir Atlantov. Sun: Tannhäuser. Next Tues and Sun: Don Carlo with Domingo (51444 2960)
Musikverein 19.30 Boston Symphony Chamber Players in works by Mozart, Copland, Bartók and Dvořák. Tomorrow: Gerd Albrecht conducts Austrian Radio Symphony Orchestra in works by Schoenberg and Zemlinsky. Sat and Sun: Rafael Frühbeck de Burgos conducts Vienna Symphony Orchestra (505 8190)
Konzerthaus 19.30 Song recital by Jochen Kowalski. Mon: Samuel Ramey (712 1211)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0830-0900 (Mon) FT East Europe Report – weekly indepth analysis from FTTV
2130-2200 (Tues) Media Europe – what's new in European media business
2130-2200 (Wed) FT Business Weekly – global business report with James Bellini
0830-0900 (Thurs) Media Europe
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week - a joint FT/CNN production
1900-1630 World Business This Week

Super Channel
1930-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1800-1630 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES
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Thursday May 14 1992

The EC and Yugoslavia

YESTERDAY'S decision by the United Nations to withdraw from Sarajevo, the capital of Bosnia-Hercegovina, casts an ominous new shadow over the war in what used to be Yugoslavia. Not only is it a disappointment for the UN and for the European Community, which has also withdrawn its monitors from the republic, it signals, for the moment, a victory for Serbia and the Serbian-dominated Yugoslav army in their quest to create a greater Serbia.

That army, which still controls a third of Croatia, is now attempting to block the deployment of UN peace-keeping troops in Croatia. If it succeeds, it is reasonable to conclude that the Croatian army, which has also been fighting in Bosnia, will launch an offensive to regain control over its borders.

When the EC started trying to mediate between the warring factions last July, it was entering *terra incognita*. This was the Community's first attempt to mediate in a war, and the first test of European security after the Cold War. The affair has demonstrated how the collapse of communism has created a security vacuum in Europe, as well as exposing the Community's own vulnerability and divisions on foreign policy and security issues.

For several months, the EC, under the umbrella of its peace conference chaired by Lord Carrington, adopted a two-pronged strategy: while attempting to negotiate the break-up of the Yugoslav federation, it held out the prospect of recognition for Croatia until it could broker a lasting ceasefire in that republic. But under pressure from Germany, the Community recognised Croatia last January. The decision did nothing to stop the war from spreading to other parts of Yugoslavia. Serbia and the federal army consolidated their positions in Croatia, and then attacked Bosnia-Hercegovina. More than 1m people have been displaced, and thousands killed, in the struggle.

Precipitate action

Throughout the 11 months of fighting, the EC has been accused of indecision and weakness *vis-à-vis* the aggressors, principally the Yugoslav army. The Community also stands accused of acting precipitately in its recognition of Croatia and Bosnia-Hercegovina, on the grounds that this provoked the army, and Serbia, into grabbing more land, and undermined the efforts of the EC peace conference. There is some justice in these charges: the EC has itself been divided on how to proceed and most member governments now admit that premature recognition was a mistake.

Futile debate

Nevertheless, this debate is futile; there has never been the political will within Croatia or Serbia to stop the fighting. Ceasefire agreements by both sides were repeatedly broken and the grab for land by both republics took precedence over EC and UN peace efforts. The EC must now ask what else it can do – to stop the killing, and prevent a heavily-armed Serbia from becoming the new strong man of the Balkans.

In practical terms, the EC must immediately enforce the arms embargo imposed on all the former republics of Yugoslavia by the UN Security Council. This will not be easy. But at least the Community should spell out to Austria, Russia, Slovenia and the countries of eastern Europe that it will take a dim view of support, sales, or transfers of weapons to any parts of the Balkans. For its part, the US, which has remained on the sidelines, must signal to Russia (if it has not already done so) that its conciliatory attitude towards Serbia, is not consistent with improving relations between Moscow and Washington.

The EC must also keep up the pressure on Serbia. Recalling its ambassadors from Belgrade earlier this week was a necessary, if belated gesture. It should now make clear to Serbs that President Slobodan Milosevic's regime will find no place in Europe unless it gives up its territorial ambitions; that it will do everything in its power to ensure that a greater Serbia can not be economically sustained. Eventually, Serbia will need good relations with the EC.

In the meantime, despite yesterday's developments, the EC and the UN have said they will persevere with their peace efforts. Stopping now is precisely what the Yugoslav army and Mr Milosevic want the outside world to do. They should not be appeased.

Opening up the post

FOR THE citizens of Europe's prospective single market, communicating with one another is a business that is changing with breathtaking speed. But amid the seismic upheavals in telecommunications markets and technologies, one sector has thus far remained relatively impervious to change: the post. Now, at last, a dose of market discipline seems to be coming to the mail too, with the publication yesterday of the European Commission's green paper on postal services.

The paper, which proposes the opening of a range of mail services currently carried out exclusively by national postal monopolies to a modicum of competition, has been a long time in arriving, and is still worryingly short on detail. Stiff opposition among the postal administrations and some EC governments to earlier drafts helped to delay it, and to blunt some of the Commission's ideas.

But its delivery is no less welcome for that. In the process of consultation that now begins, it will be up to users of postal services to make sure that the Commission hears their case for enhanced competition and improved efficiency at least as clearly as it will hear the postal monopolies' objections.

How this debate unfolds should be of interest to business everywhere in the Community. Companies need efficient postal services at affordable costs as much as ordinary citizens do. The fact that the quality of such services varies significantly between EC member states is a distortion to the European market and a serious handicap for businesses and consumers in those countries with poor postal administrations. Critically, companies and individuals also depend on the existence of a universal service – one that ensures next-day delivery to a remote farmstead in Brittany as readily as to the Rue de la Bourse.

Balancing requirements

Yesterday's green paper – the result, among other things, of a tussle between Mr Filippo Maria Pandolfi's communications directorate and the Commission's competition czars under Sir Leon Brittan – is an attempt to strike a balance between these various requirements. Sensibly, the Commission has shied away from complete liberalisation of the postal market, which almost everybody agrees would lead to the loss of a universal service, at least of one at affordable prices. Equally wisely, it has shunned the opposite course: complete harmonisation of services, which would essentially entail the establishment of a single, monster postal administration for the entire Community.

Extended competition

The proposal is, rather, that existing national postal administrations should retain their monopoly over domestic letter services up to a certain (as yet undetermined) price and weight level, and that competition – currently allowed, for example, in parcel services – be extended to other areas, such as express, direct mail and cross-border services. Any restrictions on competition, it argues, should be aimed solely at preserving universal services.

The benefits of such a gradualist approach can already be seen in Britain, where the Post Office has taken advantage of modest increases in competition to improve its services and management practices. This is one British experience worth investigation by other EC countries.

As always, the devil will lie in the detail of the Community's eventual regulations, and in their implementation. And in this respect the green paper does give some cause for concern. Compared with earlier drafts, for example, the Commission has watered down its commitment to opening up cross-border services and direct mail. It has also introduced a clause which would allow governments worried about eroding their universal mail services to apply more restrictive measures – a sizeable potential loophole.

Hence the importance of regulation. To prevent cheating by the postal monopolies, any eventual EC postal directive must contain provisions for a tight, and transparent, regulatory regime. And any exemptions to competition should be as tightly drawn as possible. Only under these conditions will Europe's state owned postal services achieve higher efficiency, while allowing private sector competitors to develop the new services a healthy economy needs.

Russia rolls the dice of reform

Martin Wolf traces the difficult process of making the rouble stable and convertible

Nothing could more clearly reveal the revolutionary changes now under way in Russia than the attempt to make the rouble internationally convertible. If the attempt succeeds, Russia and, shortly thereafter, other participants in the rouble area, will have been dragged into the global market economy. More important still, the global market economy will have been dragged into Russia.

The rouble symbolises almost everything that was wrong with the Soviet economy. That it was inconvertible into foreign exchange was the least of its problems. Cash could not be freely exchanged into goods, assets or even bank accounts. When Mr Valentin Pavlov decided in January 1991 to take Rbs100 and Rbs50 bank notes out of circulation, he was merely demonstrating the contempt in which Soviet ministers held both the money they issued and the people who have to use it.

The use of the printing press as the main instrument of public finance in a year when the all-Union budget deficit rose to 19 per cent of gross domestic product destroyed what remained of the rouble's utility. One result was restrictions on inter-republican trade, in order to keep scarce commodities from flooding out. This accelerated the move towards barter trade, itself an important reason for the 17 per cent decline in the real GDP of the former Soviet Union last year.

The price liberalisation announced by the Russian government at the end of December 1991 and reluctantly followed by the other republics was the first stage on the road to convertibility. Paradoxically, the reduction in the notional purchasing power of the rouble by three and a half times (on the official price index) made that despised piece of paper worth possessing, by eliminating shortages.

Convertibility into domestic consumer goods is the least one might expect of a currency. But, with the introduction of a foreign exchange auction – albeit a limited one, with no more than \$15-\$20m offered at a time – along with a sharp depreciation of the currency, the rouble could also be turned into foreign exchange.

It is on the latter that the government now wishes to build. Convertibility of the rouble into foreign exchange at a unified and fixed exchange rate offers the following advantages:

- together with the proposed elimination of almost all import and export quotas (apart from those on oil and gas) and the introduction of export taxes and import tariffs, the latter mostly at around 5-10 per cent, a convertible exchange rate would help to move Russian relative prices towards world levels;
- a convertible exchange rate would increase competition in the domestic economy;
- an internationally convertible rouble would encourage the return of flight capital, stimulate foreign direct investment, eliminate the need to introduce market-protecting export controls among the former Soviet republics, reduce the incentive to introduce new republican currencies helter skelter and create the basis for a common market throughout the Commonwealth of Independent States; finally,
- a fixed exchange rate for the rouble would provide a monetary anchor to the reforms.

By July 1, the exchange rate of the rouble is to be unified and made convertible for Russian residents on current account. Initially it will float. Some time afterwards (a date between the beginning of August and the autumn now being discussed by the Russian authorities) the rouble is to be fixed. A rate of Rbs80 to the dollar has been tentatively proposed, with a margin of 7½ per cent on either side.

The reform would create a single exchange rate. Penal rates, such as the one obliging exporters to sell 40 per cent of their earnings to the state at a sharply reduced rate (something they generally fail to do), would be abolished. Furthermore, there would not be a special rate for capital transactions, though convertibility on capital account would be restricted until the rouble finds a more "realistic" level.

Far more important than setting dates is establishing the necessary conditions. Exchange facilities have to be created throughout Russia. More important, a unified, convertible and fixed exchange rate is possible only with strict monetary control. But to gain such control, the Russian government needs to achieve a harmonious working relationship with its own central bank and curb the three main sources of rouble diarrhoea: the budget, the enterprises and the republics.

The Russian government inherited a budget in extreme disorder. Ostensibly, it reduced that deficit to about 1½ per cent of GDP in the first quarter of 1992. But this was on an expenditure, not a commitment basis. On the latter basis, the deficit was about 5 per cent of GDP. In the government's memorandum to the International Monetary Fund on its economic policies of February 1992, it promised a budget deficit for April to December 1992 of 1.4 per cent of GDP. This forecast has since risen to 5 per cent and presupposes that defence spending can be kept to around 4½ per cent of GDP. Further monetary emission to finance the deficit seems inevitable.

February's draft budget forecasts domestic taxation of oil and gas at 4.7 per cent of GDP between April and December and export taxation (including on oil and gas) at 9.1 per cent of GDP. But Mr Yegor Gaidar, the deputy prime minister in charge of economic reform, insists that a large net increase in revenue must not be expected. A rise in the price of oil from an initial level of Rbs350 a tonne to over Rbs12,000 by the end of next year is likely. Such large increases in energy prices will require offsetting subsidies to users, at least for a transitional period.

State enterprises have responded to reform by trying to maintain employment and output, while putting up prices and not paying their debts. In response, a worried government has already agreed to expand central bank credit to the commercial banks by Rbs200bn, which implies a rise in total credit of almost 50 per cent. The difficulties of enterprises can only increase after the planned energy price increases.

Energy pricing plays no less important a role in the most difficult area of all: inter-republican relations. At present, the rouble is a currency with 15 central banks and no monetary discipline. Why should any government or central bank behave prudently when the central bank next door can flood its country with roubles? The planned move to stabilise the rouble would be swiftly undermined if errant republics were not first brought to heel.

The question is whether Russia possesses the right mixture of determination and generosity. Without the former, there will be monetary chaos; without the latter, there will be collapsing trade. But convertibility plus energy price liberalisation does provide Russia with the needed carrots and sticks.

As an internationally convertible currency, the rouble would be more valuable than any of the new currencies that are likely to be introduced by other republics, at least in the near future.

Sustaining trade among the countries of the former Soviet Union is essential. Such trade cannot be sustained (or rather restored) on the basis of settlement in hard currency, because of the shortage of foreign exchange. But the simplest payments union would be the maintenance of the rouble area. Russia would run it. In return for control, Russia would also have to provide the transitional credits that most of the other republics will need as soon as energy prices are raised to world levels.

Even for those republics that resent Russian control and intend to establish their own currencies a period of economic restructuring within the rouble area is a sensible first step. Mr Matiukhin, the chairman of the Central Bank of Russia, states that much progress has been made, with agreement on obligatory reserve ratios, discount rates and the distribution of cash. Correspondent accounts between central banks have also been established. Agreeing limits on mutual credit is now the most important outstanding item.

Rouble stabilisation demands assistance from abroad as well. The \$24bn proposed by the Group of Seven industrial countries for this year includes humanitarian assistance and debt relief. But the latter merely recognises the reality that repayments are not being made.

The core of the \$24bn would be a \$4bn stand-by agreement with the IMF, which that organisation suggests may be completed in July, plus Russia's share of the \$2.5bn promised by the World Bank in loans for essential imports. The \$6bn stabilisation fund from the General Arrangements to Borrow of the Group of Ten, which comprises the G7 countries plus Belgium, the Netherlands, Sweden and Switzerland, would be available only when the rouble is fixed.

If the rouble is to be fixed, however, two questions arise: at what rate? And for how long?

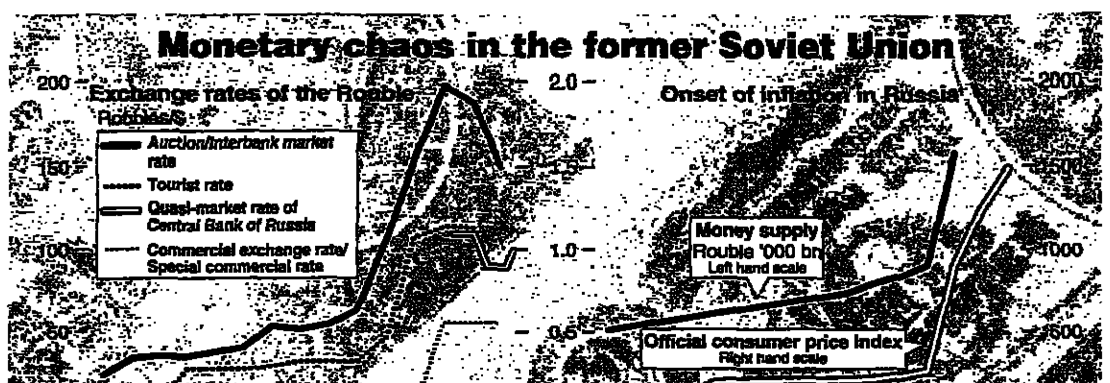
With Russian gross national product smaller at current exchange rate than Belgium's, the rouble is undervalued. It has been appreciating rapidly in real terms, however, as prices soar and a further real appreciation seems inevitable. If some of that could come via nominal appreciation rather than inflation, that would be hepiful. But it will take some time for a sensible exchange rate to emerge in a market that will be distinguished by Russians' determination not to exchange hard currency for roubles.

Moreover, with large energy price increases in the offing, inflation will continue at a rapid rate. The government itself talks of 15-20 per cent a month (400-700 per cent a year). Such inflation is inconsistent with exchange rate stability. Moreover, a trade deficit of \$2.8bn in the first quarter alone shows that what is on offer is not, in fact, that much.

It would be senseless even to try to stabilise the rouble before the exchange rate had stabilised and positive real interest rates had been established (along with the effective bankruptcy provisions needed to make such interest rates bite). A central bank discount rate of 50 per cent, however astronomical it may seem to Russians, will provide no dyke against the monetary tide with inflation running at 15 per cent a month.

No single act could do more to signal the beginning of serious economic transformation, not merely of Russia but of the former Soviet Union, than rouble convertibility and stabilisation. It is worth the gamble. But the gamble must be taken carefully: unification and convertibility first; fixing the exchange rate second; monetary control, first and last.

Monetary chaos in the former Soviet Union



Source: Goskomstat, Central Bank of the Russian Federation

	Share of total GDP 1988 (%)	Domestic credit growth 1991 (% change)	Fiscal balance 1991 (% of GDP)	Total trade 1988 (% of GDP)	[illegible]	[illegible]	
Russian Federation	61.1	93.1**	-20.0**	22.3	[illegible]	[illegible]	Russian Federation
Ukraine	16.2	144.9	-14.4	34.1	[illegible]	[illegible]	Ukraine
Kazakhstan	4.3	117.6	-8.0	33.9	[illegible]	[illegible]	Kazakhstan
Belarus	4.2	87.4	2.2	51.4	[illegible]	[illegible]	Belarus
Uzbekistan	3.3	99.3	-5.5	39.5	85.8	[illegible]	Uzbekistan
Azerbaijan	1.7	90.7	-5.2	42.0	85.6	[illegible]	Azerbaijan
Georgia	1.6	34.8	-4.9	44.3	86.5	-2.1	Georgia
Lithuania	1.4	57.4	3.0	54.9	86.8	-19.5	Lithuania
Moldova	1.2	[illegible]	—	53.1	87.8	4.0	Moldova
Latvia	1.1	[illegible]	8.0	54.6	86.7	-8.9	Latvia
Armenia	0.9	[illegible]	-0.8	54.9	89.1	6.0	Armenia
Kyrgyzstan	0.8	105.5	3.3	45.2	86.9	[illegible]	Kyrgyzstan
Tajikistan	0.8	[illegible]	3.4	41.6	86.3	[illegible]	Tajikistan
Turkmenistan	0.8	[illegible]	[illegible]	39.3	89.1	[illegible]	Turkmenistan
Estonia	0.6	[illegible]	[illegible]	63.9	85.1	[illegible]	Estonia

* Net material product excludes non-material services. ** Allows for Russia's assumption of Union level responsibilities
Source: IMF; Peter Bofinger and Daniel Gros 'Soviet Payments Union: Why and How?' Centre for European Policy Studies

BOOK REVIEW

The business of sport

DIAMONDS ARE FOREVER; THE BUSINESS OF BASEBALL
By Paul M Sommers, editor
Brookings Institution

It has long been necessary to be a lawyer and accountant fully to understand sport in America. To these qualifications must now be added an advanced degree in economics.

The thought is prompted by two apparently disparate events. The first occurred on April Fool's Day when 500-odd toothless Canadians, supplemented by Russians, Czechs, Slovaks, Swedes, and even the odd American, closed down the National Hockey League for the first time in its 75-year history.

The second is the publication of a truly formidable, but completely engrossing, tome by the Brookings Institution called, deliciously, Diamonds Are Forever, and sub-titled The Business of Baseball.

Ice hockey is a sport in some trouble. Wayne Gretzky may be the greatest thing ever to put on skates, including both Torvill and Dean. But its nasty, brutish image, allied to the eternal problems of following a fast-moving puck, means it has no national US television contract.

Its players do not seem to understand this. What they have grasped, however, and what the Brookings book demonstrates in econometric spades, is that the best way to earn more money is not nakedly to ask for it but to go on strike in order to change the terms of employment.

This is essentially what the off-field history of baseball over the last generation has been all about ever since, in 1969, an outfielder called Curt Flood challenged in the courts the sport's reserve clause and refused to be transferred from St Louis to Philadelphia.

Curt Flood lost his case when the Supreme Court ruled that baseball was exempt from the national anti-trust laws. But others followed his lead and after a couple of strikes and endless negotiation the reserve clause was confined to the dustbin for all but the youngest and was replaced by the concepts of free agency, individual contracts and binding independent arbitration of salary disputes.

The impact on the players' pockets has been dramatic. A recent survey in USA Today newspaper reported that 20 years ago the average annual salary was \$34,000; in 1982 it had risen to just over \$200,000: this year it should exceed a cool \$1m. Yet this has not been ruinous to the sport's viability because baseball revenues have soared with its booming popularity.

Where the Brookings book's 10 essays, replete with economic models, extrapolations and charts, is indispensable is in the extent to which it dissects the processes of the changes in the sport's structure, never better than when it addresses the fundamental problem of the link between pay and performance.

The starting point is Babe Ruth's famous comment in 1930 when he was asked how he could justify earning more than Herbert Hoover, who happened to be president. "I had a better year than he did," the Bambino replied.

The Brookings prose is a little more involved, as perhaps it needs to be. Thus Andrew Zimbalist writes: "A profit-maximising employer will hire workers up to the point where the marginal factor cost (MFC) is equal to the gross marginal revenue product (MRP). The marginal factor cost, in turn, will equal the salary paid to the factor (the player) plus any necessary marginal auxiliary costs that accompany the factor."

Space here precludes going into formulaic ingredients in detail. But there is one killing table, covering the seasons from 1986-89, and seeking to determine, using the MRP yardstick, whether players are exploited or overpaid.

It shows that, if anything, players still do not earn enough, though in 1989 a near perfect balance was achieved. But it also proves that the younger the player the greater the degree of exploitation.

Apprentices were paid between one-fourth and one-sixth of their net MRP; journeyman performers, with arbitration and free agency rights, earned 50-64 per cent of their MRP; the stars were paid 23-39 per cent above their MRP. In another age it would be called child labour.

But a parallel chapter, by Rodney Fort, raises another problem. Player union power in the last 20 years has actually produced greater inequality in pay, contrary to its presumed intent and certainly all its rhetoric. This in turn has probably led to a less equal distribution of talent and therefore a less competitive sport.

The fans themselves, the most vocally disgusted over soaring salaries, actually contribute to them by demanding to see what they consider the best; and the best players, especially pitchers, do fill ballparks and owner's pockets.

Yet baseball delights in defying the economic statistician. Last year's World series, between Minnesota and Atlanta, was not only contested between two teams who had finished last in their leagues in 1990. They also had lower than average payrolls, because most of their best players were young.

A seasonal aberration, perhaps; after all, as Arthur Burns, the Fed's late chairman, once said, seasonally adjusted the Great Lakes never freeze over, and nor, of course, will baseball. Ice hockey should be so lucky.

Jurek Martin

Major's commitment to more open government will be shown in reforms that are piecemeal but profound, says **John Willman**

Lifting the lid on a Pandora's box

When the prime minister recently announced the identity of the head of MI6, Britain's secret intelligence service, the very existence of which had never been publicly acknowledged, he caused a considerable and deliberate stir.

This was no casual indiscretion. Mr Major linked the outing of MI6's chief with a pledge to sweep away the "cobwebs of secrecy which needlessly veiled too much government business".

This week, Mr William Waldegrave, the minister responsible for the civil service, announced a far-reaching review of the UK's secrecy laws. Legislation to lift unnecessary restrictions on the release of government information is expected next year.

These steps are only the first in a programme of measures to open the whole Whitehall machine to greater scrutiny, as promised in the Conservative party election manifesto. However, greater openness is only part of a programme of constitutional reform which the prime minister is considering, including changes in the position of Scotland and perhaps even a Bill of Rights.

Initially, it will be open government where greatest progress is made. First to go will be some of the secrecy which surrounds ministerial decision-making. The responsibilities and membership of cabinet committees which do most of the cabinet's work will be published for the first time, within the next few days. And Questions of Procedure for Ministers, the guidebook which sets out ministers' responsibilities, will be published.

Mr Major remains opposed to any formal legislation on freedom of information. His view is that it only makes things more secret: civil servants and politicians will not commit to writing information which would be embarrassing were it to come out. And he believes that the quality of policy-making will deteriorate if advisers cannot explore all options freely because their advice is to be in the public domain.

But the prime minister is keen to relax the procedures under which many government papers remain secret well beyond the traditional 30-year rule. He would like a blanket release of historic documents, including many still classified from the Second World War, with only those for which release could be proved damaging held back. Following opposition from the cabinet office over the resources this screening would involve, the likelihood is that more archive material will be made available on request, subject to veto case by case by the department concerned.

The Conservatives can already claim some success at opening Whitehall to public gaze. For example, the more powerful select committees set up after the 1979 general election can question ministers and civil servants in public and call for the production of documents and other evidence.

Constitutional changes are likely to be piecemeal. But their eventual impact could be profound

The creation of more than 70 executive agencies to deliver government services has led to the publication of information previously shrouded in secrecy on targets, quality of service and financial performance. And the Citizen's Charter, the prime minister's campaign to improve the public services, is forcing schools, health authorities and local councils to publish details of their performance.

Increasing the openness of government is a move to expose deficiencies in the constitutional system, according to Mr Graham Mather. Mr Mather is president of the European Policy Forum, a free-market think-tank on constitutional reform which has attracted Mr Major's support.

"It will make the workings of the system clearer and allow informed debate on its shortcomings," Mr Mather says. "Mr Major is more interested in constitutional change than Mrs Thatcher, and is prepared to consider deft changes to political mechanisms which could produce better results."

Mr Major has already signalled an interest in changing parliamentary procedures and hours. And he has made encouraging noises about Scotland, where despite a modest increase in votes at the election, the legitimacy of Conservative rule is undermined by the party's third position in Scottish politics.

While there is no doubting the prime minister's commitment to preserving the Union, he has gone out of his way to promise some change to "make government more responsive to the needs of Scotland". This may be no more than the formation of a select committee for Scotland, or the restoration of the Scottish Grand Committee – all MPs with Scottish seats – sitting perhaps in Edinburgh from time to time. But the prime minister has made it clear that he is prepared to look for new solutions to constitutional problems.

Other issues he is likely to address include the constitutional role of local government. After a decade of strife between Whitehall and town halls and the growth of contracting out and opting out, local authorities are changing into purchasers of local services rather than providers. Many Conservatives believe that a review is overdue, and that the work of Sir John Banham's Local Government Commission offers an opportunity for a new settlement between central and local government.

Mr Mather sees the 1990s as a decade of even more radical constitutional reform – including the introduction of a Bill of Rights which would entrench such constitutional changes.

"We have been moving into a more rights-based structure for the public services," he says. "It would be appropriate to mark such changes with a written document."

This commitment to a some sort of written guarantee of rights is echoed by Mr Ferdinand Mount, the former Downing Street adviser whose recent book The British Constitution Now sets out a Conservative agenda for reform. He proposes a constitutional entrenchment law, complete with supreme court to rule on it – and asserts that such a move would be entirely within the Conservative tradition.

Mr Major has certainly given no hint of a move towards a Bill of Rights in his thinking. But both Mr Mather and Mr Mount are influential in Downing Street and among Conservative opinion-formers.

The prime minister is clearly delighted to have seized the initiative on open government – he teased Conservatives at the Carlton Club's eve of Queen's Speech reception with allusions to the "surprise" he planned for the next day. As an astute politician, he undoubtedly realises that moving to the ground of constitutional reform denies it to his opponents.

However, he is also aware of the need to carry his party on any reforms. Conservatives are easily alarmed by threats to the established order – as Lord St John of Fawsley put it, the party needs to be reassured that the slate is not about to be wiped clean and a fresh start made.

So constitutional changes are likely to be piecemeal. But their eventual impact could be profound, as with other aspects of the "incremental Conservatism" which has become the hallmark of Majorism. They will certainly amount to more than a tilt in the direction of open government.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

The price to be paid for learning a language

From Mr David J Brown.

Sir, In reviewing the book, Languages in International Business (*Management*: "Talking turkey on foreign language lessons", May 13), Christopher Price omits to mention one of the fundamental questions that confronts employees who learn languages for business.

Whatever the employer's intentions, there is a definable cost in money terms to the employee.

If an employer pays even part of the cost of language lessons then the employee will be taxed on that amount as a perk in the same way as he or she is taxed on the benefit of a company car.

Even worse is the fact that someone paying top rate 40 per cent tax will be charged at 47 per cent of the cost of the lessons because even the tax on lessons is taxed.

This matter was raised not only with the Inland Revenue but also at high level in the last Treasury team. The government's answer was that if such perks are not taxed then the government would have to give the same benefit to the ladies of the night in Bayswater.

I admit to being surprised that the Inland Revenue cannot tell the difference between a large international bank in the City and a sole trader who does not import or export.

By contrast, my subordinates in Frankfurt do receive very considerable personal fiscal benefits in respect of any training; this must surely be seen as a hidden subsidy to assist German foreign trade and therefore contrary to stated General Agreement on Tariffs and Trade policy.

Is there any good reason why an employee should pay for a benefit to be enjoyed by his or her employer?

David J Brown,
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UK needs high value added activities to stimulate economy

From Mr Mark E Bleackley.

Sir, While the pledge by Mr Michael Heseltine, the trade and industry secretary, to "help British industry to win" is commendable (May 6) I wonder what exactly he means by "British industry".

Would he include:

- multinational companies, such as ICI, that are headquartered in the UK yet have significant sales and share ownership outside the country;
- foreign-owned companies, like Nissan, that are sizeable employers in the UK;
- UK-owned companies, such as Amstrad, which sub-contract significant manufacturing and assembly operations to foreign countries.

Any dialogue that seeks to stimulate economic growth by "picking winners" – the main focus of industrial policy in France – fails to address the key issue. A more urgent priority is the development of those skills and capabilities necessary to attract high value added activities into the UK, no matter what the companies' national origin.

Mark E Bleackley,
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Same fare

From Mr Syd Pennington.

Sir, Your excellent survey on business air travel had one small mistake in the table ("Non-stop return fares to New York from European cities", May 11). Despite 18-inches more leg room, free economy class tickets, and more air hostesses in Business Class, we actually charge the same basic fare as our competitors.

Syd Pennington,
managing director,
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Mind-set in European agriculture

From Mr G Rothwell.

Sir, I have just read David Richardson on the Po valley ("Farmer's viewpoint", May 12), and while having some sympathy with him on the inability of the Italians to stick to the rules, I cannot help thinking how his article typifies the mind-set that exists in European agriculture.

His analysis of the comparative merits of two strains of dairy cows focuses completely on a gross output model whereas those of us who would operate in an undistorted and unsubsidised world would necessarily focus on a gross margin model. He did at one stage mention the pursuit of profit but it is one thing to pursue it, and another to achieve it.

Is it any wonder that in almost all commodities produced in Europe the price needed by farmers is around twice that needed by the world's economically efficient producers.

The promised review of the Common Agricultural Policy will produce changes far more profound than most people in Europe necessarily understand as pricing pressure puts pressure on gross output thinking.

G W Rothwell,
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Traps that inhibit growth of grant-maintained schools

From Mr Andrew Turner.

Sir, You are to be congratulated on avoiding many of the elephant-traps into which some of your colleagues have fallen when considering the impact of grant-maintained schools (Leading article: "A strategy for UK education", May 6). But one or two have caught you.

The Department of Education and Science has rejected nearly half the applications by schools threatened with closure, so GM status has not totally inhibited closure – except perhaps where local education authorities have failed to bring proposals forward.

The DES has provided a "decentralised administration to manage" GM schools – in each of the schools themselves – and if the DES's "mechanism of control" is weak it is intentionally so. First, schools cannot make strides if they do not take risks (and those risks may on occasion be ill-judged); second, most schools flourish when politicians leave them alone, not when (however good their intentions) they have the capacity for infinite intervention. (And anyway, the education offered by Stratford School has emphatically not been thrown into turmoil).

As for funding, although the DES may in due course need to establish an agency – like the Benefits Agency – to fund the growing GM sector, regional bodies "representing the community" are not justified. An effective market offers choice not only to a local majority of consumers, but also, and more effectively than "representative" structures, to minorities.

Finally, a stable institutional framework is exactly what is not required for education to flourish. Institutions must be capable of adapting to the demands of parents, pupils and the wider community, and mechanisms and policies should be tailored to help them to adapt. Unencumbered, grant-maintained schools are both vital and flexible.

Andrew Turner,
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OBSERVER

Mandarins unmoved

■ Will Premier Major's classless society accomplish something plain reason has failed to do for 70 years: get Britain's top mandarins to change the name of their union, the Association of First Division Civil Servants?

What the name meant was clear when the outfit was set up in 1919 because the civil service was then organised into three divisions. But that structure was abolished three years later, taking with it the reason for the title.

Prospects of a re-naming initially looked bright at the association's conference in London yesterday. Proposing a change, the social security department's Justin Wickens said the title's élitist ring deterred potential recruits.

But in the end the reform was blocked, despite the absence of honorary member Sir Humphrey Appleby, of Yes Minister! Tax inspector Will Richardson substituted, arguing that the title is a well recognised brand, and adding: "We may look like a snooty, élitist union, but at least people know which snooty élitist union we are."

The killing blow had come earlier, though, when Wickens told members that with the demise of the first division of the football league, for them too "it was time for a change".

That very same phrase had been used by the Labour Party, said a speaker from the floor – and look where it got them.

Design change

■ The arrival of Anthony Simonds-Gooding as the new chairman and chief executive of the Design and Art Directors' Association, better known as D&AD, has caused a bit of a stir. Not only is it a bit of a comedown for the 54-year-old Simonds-Gooding, once considered a contender for the top job at Guinness, but it also comes after a long bout of grief for the UK's leading design and advertising award-making organisation.

D&AD has effectively been without a chief executive since the start of 1992. Some would argue that lack of effective administration started much earlier than that; in 1984 it was discovered that D&AD had not filed accounts for nine years.

Edward Booth-Clibborn, who been executive chairman of D&AD for yonks, was suspended in January and up until this week lawyers were wrangling over the wording of the statement concerning his final departure.

D&AD is a registered charity. But the board discovered all kinds of activities being conducted under its aegis which seemed to have little to do with the running of an annual awards dinner – D&AD's main *raison d'être*. At the very least, financial control seems to have gone haywire. Yesterday it was announced that Booth-Clibborn was leaving.

In hiring Simonds-Gooding, a former Whitbread and Saatchi marketing whiz and ex-boss of British Satellite Broadcasting, the D&AD seems to be taking a sledgehammer to the problem. But better late than never.

Jam on it

■ Talk about making a virtue of a necessity. Hotels around the notorious M25 motorway orbiting London are urging motorists to stay with them while spending seven days creeping round the perimeter, and sight-seeing during the frequent stoppages.

Recommended hold-up points for the £250 holiday include junction 12 with view of Thorpe theme park, junction 3 for Winston Churchill's Chartwell, and junction 33 with prospect of Windsor Castle.

One of the 28 hotels involved, the Churchgate Manor at Harlow, is putting extra jam on its offer by providing a free tank of petrol daily, plus survival picnics for those who get gridlocked too often to use it.

"I notice he winked when he excommunicated you"

Debt of gratitude

■ It is good to see that the worst slump in living memory has not affected the property industry's sense of humour. Guest of honour at the British Property Federation's annual bash was none other than the hapless Sir John Quinton, chairman of Barclays, which has been pilloried as the largest UK lender to the property industry.

To bring the point home, a speech of thanks was made by the federation's outgoing president Trevor Osborne, chairman of Speyhawk, which has just lost Barclays a small fortune. "Sir John," quipped Osborne, "we owe you more than we can ever repay."

Osborne was not alone in his gratitude to Sir John, whose speech contained much that the property industry wanted to hear. "Banks would far rather work with, not against, their customers, and the incumbent management who know the assets best," he said.

It would all have been quite reassuring for the industry had it not been for the composition of the guest-list. The largest contingent, occupying no fewer than five tables, was from Madagans, a well known firm of bailiffs.

Job-hunter

■ It is hard to believe we've heard the last of Brenda Dean, Britain's most prominent woman trade unionist. Admittedly, her career as a trade union official is probably over. But she is only 49, is a well-known public figure, and has run a big organisation. Her abrupt departure from the GPMU suggests she doesn't like playing second fiddle.

Unlike most of her colleagues she is respected in some Conservative party circles and counts people like Lady Howe among her friends. No doubt she could find a home in an outlying quango. Perhaps Gillian Shephard, the new employment secretary, might find her a job. It would make wonderful PR for the Conservatives.

Under cover

■ John Major's vaunted sweeping away of the secrecy surrounding Britain's intelligence services has failed to impress a reader in France.

Sure, the UK premier has acknowledged the existence of MI6 as well as MI5, he says. But what about MIs 1, 2, 3 and 4?

FINANCIAL TIMES
Thursday May 14 1992

German finance minister says austerity programme will control spending

Waigel rejects call to raise taxes

By Quentin Peel in Bonn

MR THEO WAIGEL, the German finance minister, yesterday sought to reassure international opinion that he would bring public spending under control by 1995 with a determined austerity programme.

He also resolutely rejected calls for tax increases to reduce the budget deficit, describing them as a "recipe for recession".

Mr Waigel said the government was doing everything it could to create the economic conditions which would allow the Bundesbank to bring down interest rates.

"If we succeed in getting all levels of government to reduce spending, if wage agreements are appropriate, if the rise in wage unit costs can be stopped, then we will be creating political and economic preconditions which open scope for movement on the interest rate front," he said, stressing the central bank's independence in deciding monetary policy.

He won unanimous backing yesterday from the cabinet for a medium-term consolidation plan, which would keep the nominal rise in central government spending to 2.5 per cent a year, maintain a moratorium on new spending plans, and cut the budget deficit from a forecast DM42.7bn ($25.8bn) this year to DM25bn in 1995.

This year's budget deficit is already going to be lower than expected by DM2.6bn, thanks to a supplementary budget also approved yesterday, providing for increased tax revenues and other income of DM6.5bn, against increased spending of DM3.9bn.

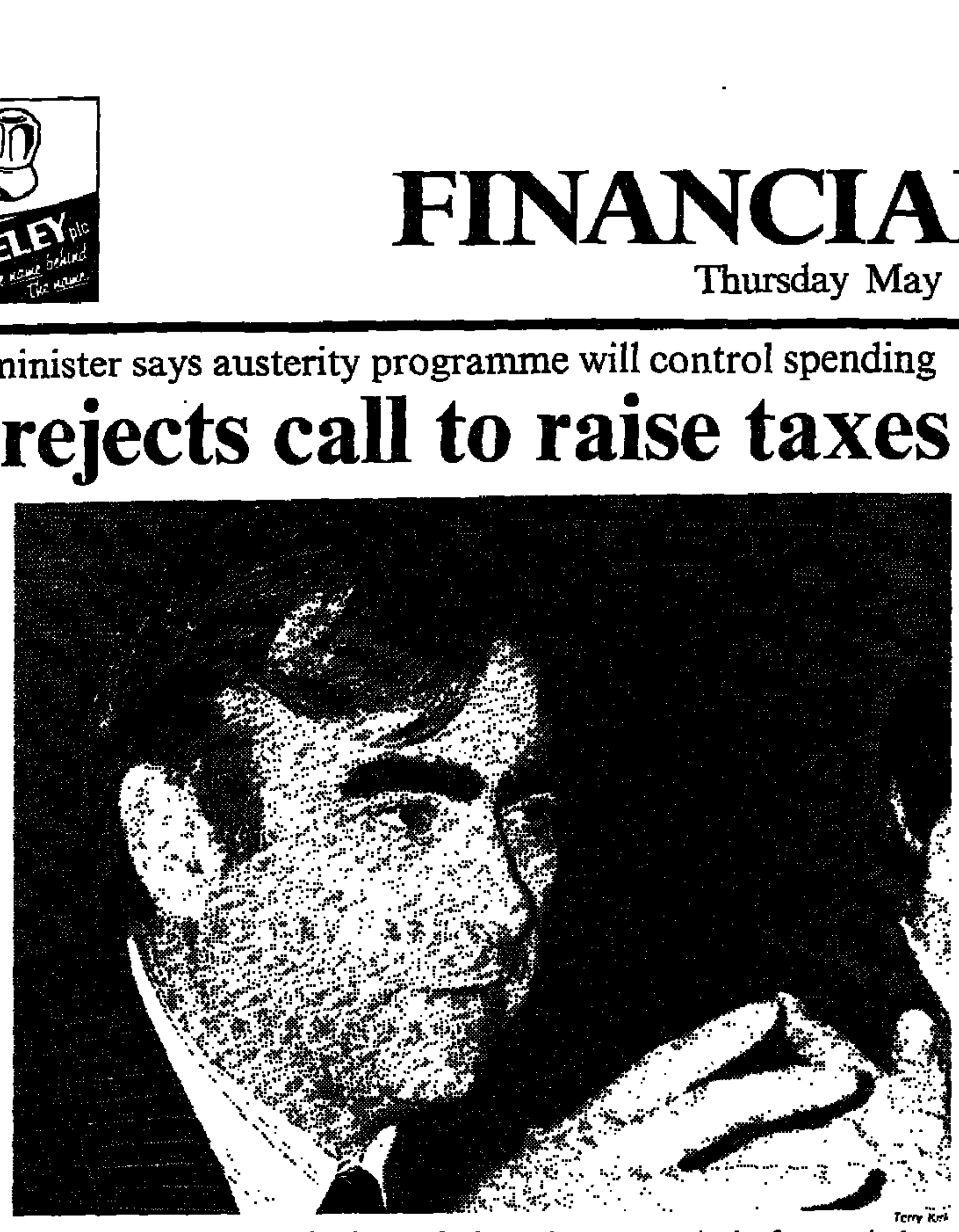
Mr Waigel did not spell out concrete measures to cut government spending, apart fromstopping central subsidies of the Federal Labour Office, which pays out unemployment benefits, and finances training and job creation schemes in the east.

He made it clear, however, that the government would not subsidise any big prestige projects in the coming years, such as Hanover's plans for an international Expo 2000 or Berlin's hopes to stage the Olympic Games in the same year.

He showed the real sensitivity of the German government to international opinion when he promised to bring forward presentation of his 1993 budget to July 1 – two weeks ahead of normal – in order to be able to present it to his colleagues at the Group of Seven (G7) world economic summit in Munich the following week.

The lack of adequate austerity in German public spending was sharply criticised at the last G7 ministerial meeting in Washington, and by the International Monetary Fund last month.

Mr Waigel's medium-term financial plans are based on an assumption of overall 2.0 per cent growth this year, including both east and west Germany, followed by 3 per cent in 1993 and 3.4 per cent in 1994. That means with a nominal 2.5 per cent growth in central government spending, and 3.0 per cent in the rest of the public sector, that real cuts have to be found.



Terry Kirk

Finance minister Theo Waigel: rejected calls for tax increases as a 'recipe for recession'

Last-chance pay talks, Page 2

THE LEX COLUMN

The grocer triumphant

Lord Sainsbury's farewell message to the press yesterday was grandiose but impressive. When he took over as chairman in 1969, Sainsbury's profits were one ninth those of Marks and Spencer. They are now bigger. The 17 per cent rise in last year's earnings per share is in astonishing contrast to the corporate sector in general and to Sainsbury's suppliers in particular. Although the group's UK supermarkets enjoyed underlying volume growth of 1 per cent at best, margins were up and growth was higher in the second half than in the first. If this is Sainsbury in a recession, what can go wrong hereafter?

One answer is by now familiar. As the company continues to pour capital into new stores – some £800m this year and next – it has to keep raising margins if it is to maintain its return on capital. It is argued that bigger new stores deliver higher margins automatically by virtue of their cost structure, even without higher sales. But that assumes that Sainsbury and its rivals can retain these savings indefinitely on behalf of shareholders, rather than being obliged by competitive pressure to pass them on to the customer.

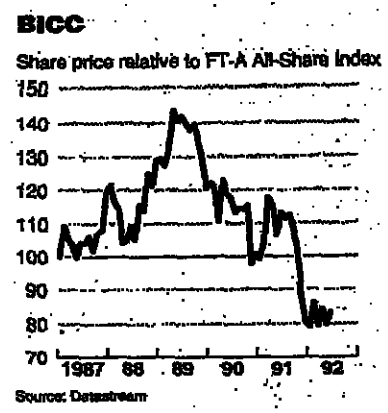
But whatever the operational risk, at least the financial risk seems to be abating. Gearing by the end of this year will be around 20 per cent. It may not rise materially thereafter. Two years ago, Sainsbury's free cash flow covered 56 per cent of its capital expenditure. The figure is now 75 per cent, and should reach 100 per cent within the next two or three years. At yesterday's 459p, the shares are on 18 times historic earnings, compared to Marks and Spencer's 22 times. Though the operational risk is real enough, it is perhaps in the price.

BICC

At least BICC appears to have lined up a couple of acquisitions and can hardly be accused of raising expectations of imminent recovery. That said, the enthusiastic response to yesterday's £154m rights issue brings to mind the market's prematurely positive reaction to all those cash calls in the contracting sector exactly a year ago. The rest is history.

Investors are doubtless relieved by the impact on the balance sheet, although a 9 per cent yield on the new money emphasises the cost of cutting gearing in this way. That, of course, is not how the company sees it. BICC continues to insist on its convertible

FT-SE Index: 2720.5 (-1.9)



capital bonds being treated as equity, brushing aside those who were gloomily predicting year-end gearing including the off-balance sheet debt of close to 100 per cent. On the other hand, if there is not an unspoken fear that the Accounting Standards Board will soon put a different gloss on the in-house calculations, one is entitled to ask why the company really thinks the cash call was necessary in the first place.

The case against the shares, though, rests more on doubts about whether the dividend can be raised fast enough hereafter to justify the 7.6 per cent yield on yesterday's ex-rights price. It is not just that dividend cover of two times still looks to be some way off. The question is whether the company can afford to be generous given the continuing cash demands from its property business. At 356p, moreover, the shares are already discounting a good part of the upturn.

Currencies

The dollar's weakness must be exasperating those who were predicting a steady recovery in 1992. Against the D-Mark, however, its behaviour is easily explained by interest rate differentials. With Germany apparently condemned to tight money for the foreseeable future, it has become expensive to go short of the D-Mark – all the more so since there is no sign of a US recovery strong enough to prompt a rise in US interest rates. April may have seen a 0.9 per cent jump in US retail sales, but this has to be set against a downward revised fall of 1 per cent in March. The 3.9 per cent annual rise in core US inflation (retail prices excluding movements in food and energy) even suggests room for the Federal Reserve to ease policy again.

Harder to explain is what is happening to the yen, which has been the main beneficiary of the dollar's fall this week. The interest rate differential with the dollar is small, but Japanese insurance companies have turned heavy sellers of the dollar. With the Nikkei off its lows, it is unlikely that this has to do with the need to repatriate funds to bail out the banks.

More likely, the institutions are responding to the renewed attack from the US Treasury on Japan's trade surplus. Accompanied as its remarks are by allegations of Chinese and Taiwanese currency manipulation for export gains, it looks as though the US means business. The natural response by Japan would be to talk the yen higher. Since higher short-term interest rates are hardly appropriate for the present stage of the cycle, it is difficult to see how this could produce a sustained effect on the currency – unless it is accompanied by fiscal pump-priming which would boost the economy and push bond yields up to more attractive levels.

Package tours

The notion that last year's collapse of International Leisure Group would stabilise the package holiday market is looking suspect. Prices of early season holidays are already being heavily discounted. Perhaps more revealing, yesterday's figures from the Civil Aviation Authority for the 1991 season showed that tour operators in general remained stubbornly over-optimistic about capacity. Their estimates for this year's volume look the more difficult to attain, not least because pre-election doubts may have caused buyers to delay holiday bookings along with new cars and houses.

It also looks as if consumers are less prepared to pay in advance and are booking later, perhaps in the hope that nervous operators will concede price reductions. That will erode the seasonal cash benefit traditionally enjoyed by the tour companies. Admittedly, this year's peak season bookings are reported as healthy at this stage. All the same, the startling rise of Airtours' shares, which outperformed the market by more than 300 per cent last year, is unlikely to be repeated in a hurry. Investors will doubtless be alert for further signs that the package holiday business is reverting to type.

Brussels softens its tone on mail services single market

By Roland Rudd in London and Andrew Hill in Brussels

THE European Commission yesterday pulled back from recommending the immediate liberalisation of cross-border and direct mail services.

Its long-awaited green paper (discussion document) on the single market in postal services suggests gradual liberalisation, a significant softening of tone compared with earlier drafts which recommended their removal from post office monopolies. Some national postal authorities have lobbied hard to preserve their monopoly rights over mail services.

While the paper recommends more liberalisation, it reiterates the right of each member state to apply for a "more restrictive solution" under the EC treaty, in the interests of preserving a universal mail service for all.

Sir Leon Brittan, competition commissioner, launching the discussion document with Mr Filippo Maria Pandolfi, the commissioner responsible for the sector, said he would not rule out the use of special Commission powers to break open national monopolies without approval of member states.

Sir Leon has forced the pace of change by recommending the liberalisation of express services and publications, and trying to restrict the scope of reserved areas – such as domestic private and business correspondence – in which national monopolies would be allowed to maintain control.

He stressed yesterday that the Commission would move quickly to turn its discussion document into legislation. However, it will come under continued pressure from national postal adminstrations not to challenge public monopolies.

Mr Pat Lupo, chairman and chief executive of the international express service DHL, said yesterday: "It is disappointing to see the Commission yielding to pressure to amend its original proposals concerning cross-border services."

Mr Jim Campbell, counsel for the International Express Carriers Conference and European Express Organisation representing many private operators, said the paper still contained "unwarranted traditional assumptions", although he praised its general move towards liberalisation.

The British Post Office welcomed the EC's gradual move towards liberalisation.

The Commission has called for the establishment of a set of reserved areas in which national administrations would be able to keep their monopoly. Such a commitment would preserve standards and ensure a universal postal service, the Commission believes. Reserved services should include domestic personal and business correspondence, the Commission says. "A [standard] service would be available everywhere in the Community . . . irrespective of the accessibility of certain regions," said Mr Pandolfi.

● Composite insurers (which combine life and non-life operations) will be allowed to establish branches in any EC member state under legislation expected to be agreed by ministers today.

Ministers are also set to discuss the vexed issue of frontier controls on goods, including checks on animals.

Editorial Comment, Page 12

Preacher Pat buys UPI

Continued from Page 1

and Jimmy Swaggert, and the collapse of its antichrist, Soviet communism. But he has not been idle in the past four years, as his contingent all-cash $6m bid for UPI shows. The condition is that he has 30 days to look at UPI's books, after which he may lower or withdraw his offer.

Even in its present attenuated form, UPI is believed to be losing about $500,000 a month and has debt of about $60m. Without a rescue, it was due to close at the end of this week.

Mr Robertson's vehicle for the offer is US Media, formed a year ago as the for-profit offshoot of his tax-exempt Christian Broadcasting Network.

He runs a sophisticated corporate network. Another arm is International Family Entertainments, which runs the cable Family Channel and went public last month. The offering valued the stock held by Mr Robertson and his son at $90m, constituting a positively unholy return on an initial investment of $183,000.

UPI has gone in the other direction and is a shadow of its former self, having twice filed for bankruptcy. Even divine intervention, however, may not be enough to keep it afloat for much longer.

Indian institutions snap up shares

By David Housego in New Delhi and R.C. Murthy in Bombay

INDIA'S state-owned financial institutions took part in large-scale share purchase yesterday to reverse a price collapse on the country's stock markets.

The Bombay Stock Exchange 30-share index rose 11 per cent, adding 344.76 to 3,431.13, wiping out Tuesday's sharp decline. The two-week tumble in share prices had been triggered by revelations of a financial scandal that resulted in the syphoning of funds from the government securities market into equity purchases.

The massive intervention by the financial institutions came after the stock exchange authorities banned forward selling in 85 shares overnight.

In an effort to curb abuses in the interbank securities market, the Reserve Bank, the country's central bank, yesterday issued fresh guidelines to commercial banks operating in the market. The central bank said banks should not hold an oversold position in a security – meaning that a bank should not sell a security which it did not hold.

Finance ministry officials say that some of the abuses in the securities market involve "fraud and potential criminality".

The Reserve Bank is also investigating securities dealing by ANZ Grindlays, Standard Chartered, Bank of America and Citibank, as well as by 15 Indian state-owned banks.

ANZ Grindlays, India's largest foreign bank and the one believed to be most exposed to losses from abuses in the securities market, last night declined to comment further on its involvement. It issued a press release which said that the bank sees "no useful purpose in adding to speculation in the market".

According to widespread market reports, National Housing Bank issued a cheque to Grindlays for a large sum which was then credited to the account of Mr Harshad Mehta. Mr Mehta is the Bombay broker who was forced to repay Rs6.2bn ($216m) to State Bank of India to settle outstanding accounts in the interbank market in government securities.

In its new guidelines, the Reserve Bank also banned the use of brokers' accounts in interbank dealings. In the present financial scandal the worst abuses have occurred as a result of connivance between brokers and bankers in what are normally direct transactions between banks.

As the Central Bureau of Investigation extended its inquiries, there were reports of irregularities extending beyond the securities market. Corporation Bank, a state bank, was reported to have sold shares illegally in a public sector unit before these had been quoted on the stock market.

Intervention by financial institutions came as the market opened, with prices quoted much higher in early trading.

Brawl adds to drama

Continued from Page 1

of the first round that only a handful of deputies bothered to remain in the vast, ornate parliament chamber to hear the results announced. Most were already milling in the main bar or trading alliances behind closed doors.

The party bosses appear to have decided to play for time until the fourth round, after which the two thirds majority of 676 votes alters to a simple majority of 508. This phase is not likely to begin until Friday.

The main problem with the election process is that The outgoing coalition lacks a convincing majority and is uncertain whether to plump for a well known figure of their own in the hope of finding other allies. The joker in the pack remains the populist Lombard League with 80 decisive votes.

The League abstained in protest at their exclusion from the choice of voting councillors.

World Weather

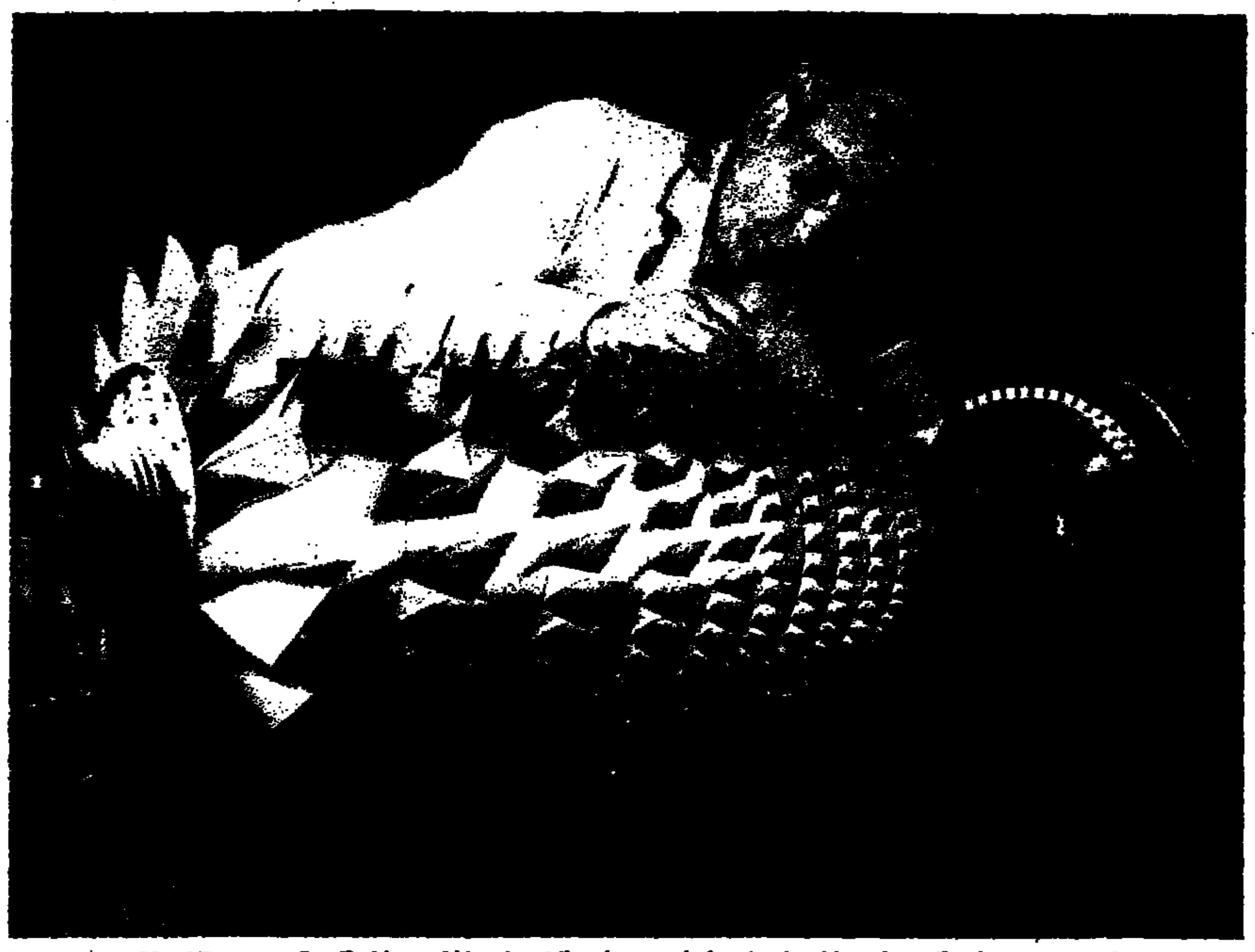
		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
				Boulogne	S	21	70	Frankfurt	S	21	70	Majorca	S	22	72	Oporto	S	29	84	Tenerife	S	24	75
				Brussels	S	20	68	Geneva	S	22	72	Malaga	S	24	75	Oslo	F	17	63	Tokyo	S	19	66
				Budapest	S	22	72	Gibraltar	F	21	70	Malta	S	24	75	Paris	S	24	75	Toronto †	F	17	63
Ajaccio	S	23	73	Buenos Aires	F	19	66	Glasgow	F	18	64	Manila	C	35	95	Prague	S	21	70	Tunis	S	23	73
Algiers	S	23	73	Cairo	S	31	88	Helsinki	R	6	43	Melbourne	F	15	59	Reykjavik	S	5	41	Valencia	S	23	73
Amsterdam	S	19	66	Cape Town	S	29	84	Hong Kong		–	–	Mexico City	C	26	79	Rhodes	F	22	72	Venice	S	24	75
Athens	F	24	75	Caracas	C	29	84	Innsbruck	S	23	73	Miami †	S	23	73	Rio d'Janeiro	C	35	95	Vienna	S	21	70
Bahrain	S	28	82	Casablanca †	F	23	73	Inverness	S	17	63	Milan	S	25	77	Rome	S	24	75	Warsaw	F	20	68
Bangkok	C	37	99	Chicago †		–	–	Islamabad	C	32	90	Montreal †	S	18	64	Salzburg	S	23	73	Washington †	S	16	61
Barcelona	S	19	66	Cologne	S	21	70	Istanbul	F	14	57	Moscow	S	11	52	S'Francisco †	F	12	54	Zurich	S	22	72
Beijing	F	23	73	Copenhagen	C	16	61	Jakarta	R	32	90	Munich	S	23	73	Seoul	F	14	57				
Beirut	S	22	72	Corfu	S	28	82	Johannesburg	S	21	70	Nairobi	F	23	73	Singapore	R	27	81				
Belfast	C	15	59	Dallas †	S	20	68	Lisbon	F	24	75	Naples	S	26	79	Stockholm	S	12	54				
Belgrade	S	21	70	Dublin	F	15	59	London	S	20	68	Nassau		–	–	Strasbourg	S	24	75				
Berlin	C	19	66	Dubrovnik		–	–	Los Angeles †	C	17	63	New Delhi		–	–	Sydney	F	20	68				
Biarritz	S	31	88	Edinburgh	S	18	64	Luxembourg	S	20	68	New York †	C	14	57	Taipei	F	30	86				
Bombay	S	33	91	Faro	R	18	64	Madeira	F	21	70	Nice	S	25	77	Tangier	F	24	75				
Bordeaux	S	27	81	Florence	S	27	81	Madrid	S	28	82	Nicosia	S	24	75	Tel Aviv	S	26	79				

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

WORLD ELECTRICITY

Many countries are privatising or restructuring their electricity industries. But none has yet rivalled the radical nature of the reforms in Britain, and EC efforts to encourage more cross-frontier competition have so far made little headway, writes **Juliet Sychrava**

From public to private



A rotor assembly at European Gas Turbines of Lincoln: at the sharp end of a structural transformation in power supply

ELECTRICITY industries *round the world* are being restructured. But they are not, contrary to *the predictions* of Mr John Wakeham, Britain's former energy secretary, following the UK privatisation pattern. Nor is Europe moving towards the kind of free electricity market set up in Britain.

UK privatisation itself has been a mixed success. Some analysts, such as Mr Andrew Johns of National Utilities Services, (NUS) are enthusiastic.

"It has enabled consumers to negotiate individual deals," he says. "There is no doubt that it has changed the face of electricity purchasing completely."

Most observers agree that privatisation has made the electricity industry leaner and meaner, and although it is too early to say whether it has brought prices down, most consumers appear to be better off.

"It has removed forever the CEGB mentality where you had engineers running the industry for engineers, and the government handing them a blank cheque," says a financial consultant to the industry.

"The consumer now has a *certain transparency* when the CEGB was one of the most opaque organisations," says Mr Gordon MacKerron of Sussex University's Science Policy Research Unit (SPRU). "They now have a clear idea what *nuclear costs, and have an* incentive to develop new technologies such as renewable energy, which has moved ahead fast. Cross subsidies are more difficult – *you can't* have blatant political fixes for big consumers.

"It is also good to have gas-fired plant – although the craze for gas has gone too far. The CEGB's strategic planning function was pretty Stalinist – we would have just had more gigantic coal and nuclear plants."

But the market has detractors – and not only the large customers who have lost their government subsidies under the new regime. MPs on the Commons energy committee, and the electricity industry watchdog, *Offer*, are both concerned about whether enough competition is emerging in electricity generation.

Meanwhile, other European *countries are showing few* signs of following Britain down the privatisation road.

The EC itself has made efforts to introduce more competition, and to make the basis of electricity pricing more *open, or transparent.*

But draft directives aimed at liberalising the electricity market have so far made little progress. In particular, several European countries including France and the Netherlands, are resisting efforts to introduce "third party access" or TPA, which would open up national monopolies, allowing European suppliers to supply *European customers* across borders.

This is mainly because of the many large public sector European utilities, which resist any *encroachment* on their protected franchises.

There are also logistical problems with introducing cross border trading of electricity, such as establishing who pays for capital investment in the *grid systems*. If a German company's purchase of power from a UK generator means lines need to be reinforced to carry the extra electricity – who pays for the work?

There would also have to be some equivalent of the UK "pool" which acts as a central clearing and settlement agency for all deals. A Spanish supplier who is paid on contract *by an Italian purchaser but* fails to generate needs to settle up with the Italian national supplier who actually supplies.

The chances of European countries adopting the UK "pool" or wholesale market in electricity are small, most observers say, not least because the pool itself seems increasingly peripheral (some say unnecessary) to the UK market.

But they will probably begin to unbundle their accounts, splitting generation from distribution and supply, to give more transparent pricing. Even if TPA does not develop across borders for some time, there will be more competition in supply within domestic markets.

There has also been more of *a trend towards restructuring* than to privatisation.

One group of European countries is still resisting any real change. France, Italy and Germany have not restructured their industries, and are broadly opposed *to EC* attempts to open their electricity markets.

Belgium, which previously had three private companies, now has a private monopoly, Electrabel, over which the state has more control. It too, is opposed to radical market reform.

Spain is more ambivalent. The country's utilities have been restructured: the biggest private electricity companies, Iberduero and Hidrol, merged to form Iberdrola, while Endesa, the state-owned company, has *taken over two other* utilities. Some shares have been issued in Endesa. However, Spain's enthusiasm for privatisation or for TPA is muted.

Three countries making more significant moves *towards* a competitive market in electricity are Norway, Sweden, and Portugal.

Portugal has invited private sector bids to build new power stations, notably a new oil-fired station north of Lisbon. The UK's PowerGen and National Power are among the international companies bidding for the business. The Portuguese electricity utility, Electricidade de Portugal, is *also being restructured*, and "corporatised," and will later be split into six separate companies. Some private capital may be injected into these *companies* later.

In Sweden, meanwhile, the government has committed itself to introducing a free electricity market with full TPA by 1994. It has created a new Swedish National Grid, which may be partly sold off, but there are no firm plans for privatising Vattenfall, the dominant state-owned utility.

The Norwegian system is perhaps the *closest* to the UK market, although no privatisation has taken place.

Early this year, Norway began a radical restructuring of the electricity industry, which comprises the publicly-*owned* utility, Statkraft, as well as a number of privately and publicly owned *electricity* companies. Companies will be able to compete to supply customers, and will have open access to the electricity grid.

Statkraft was recently split into two parts, a generating company, and a *grid* management company, giving the generating side more commercial freedom. Norway already has a spot market for surplus electricity, and it is thought that electricity contracts may be traded in the near future.

Privatisation, for most European *countries*, is a political issue. If they are against it, it is often because their large public utilities are part of the framework of government. But in Asia, where electricity industries are also being *restructured, privatisation* is primarily an economic issue.

In South East Asia, *Malaysia*, Thailand, and Indonesia plan to inject private sector capital into their cash-starved utilities.

"In the developing countries, privatisation is viewed primarily as a mechanism for raising funds," says Mr Andrew Barnett, who heads Sussex University's Developing Country Group. "There is a massive requirement for electricity, and *a shortage of funding.*" Some South East Asian countries, he

Continued on Page 4

IN THIS SURVEY

David Lascelles previews next month's "green" summit in Rio de Janeiro

World energy producers on trial

THIS summer's Earth Summit in Rio de Janeiro has important implications for the electricity industry.

But although this portentously named event is less than a month away it is far from clear what practical results it will have. The final preparatory meetings have tended to widen rather than narrow differences between the more than 160 countries who are planning to attend.

Mr Maurice Strong, the Canadian organiser of the UN-sponsored event, originally hoped to secure approval for a global action programme not merely to clean up the environment, but to stabilise it for the next century. He may only achieve statements of intent at this stage.

One reason for this unpromising outlook is that the Rio agenda ran hopelessly out of control during the two-year preparations. All the participants were encouraged to put forward their ideas, and did. The action programme expanded to nearly 1,000 pages, leaving delegates drowning in words and lacking a clear focus.

Another reason is that the participants quickly polarised into a clash between the rich countries of the north and the poor of the south over who was to blame for environmental degradation, and who should pay for it.

The UN organisers calculated that the South would need $70bn a year from the North, in addition to existing aid, to overcome its environmental problems. The North agreed that extra money would be needed, but only a tiny fraction of this sum.

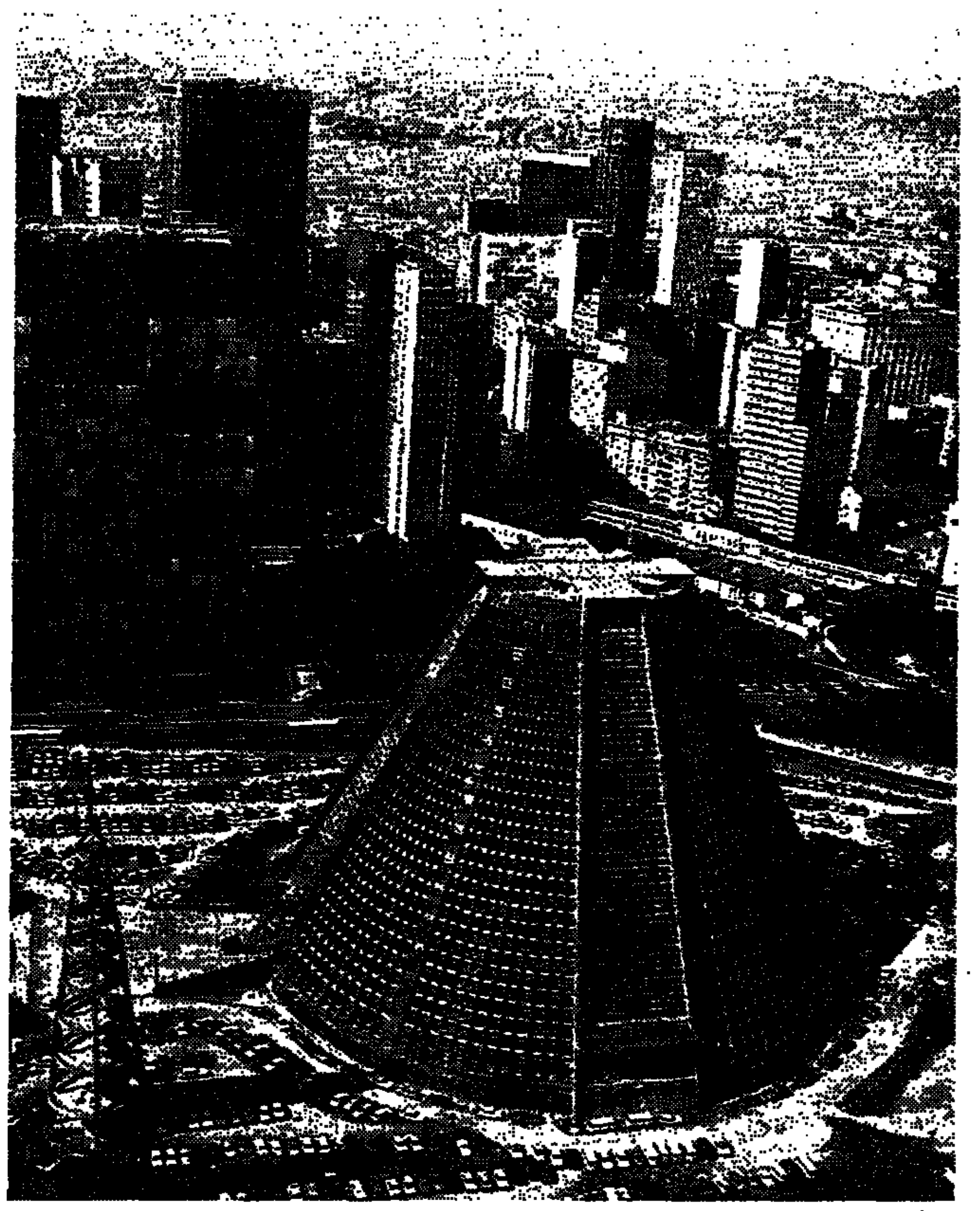
A third reason is that the industrialised countries failed to agree, even among themselves, on the seriousness of the threat to the environment, or on the measures needed to deal with it. The reluctance of Mr George Bush, the US president, to commit himself to attend the Rio meeting indicated doubts about its value.

Whatever happens, though, energy will loom large during the 12-day event. The threat posed to the planet by global warming and climate change has occupied much time in the preparatory meetings, and many participants are keen for action of some kind to curb harmful gaseous emissions from vehicles, power stations and factories.

But the debate in the run-up to Rio has done little to crystallise a world view on the dangers of global warming. Many people, including senior government figures on both sides of the Atlantic, doubt that the threat is as serious as some scientists are claiming, and this has weakened the political will for early action.

The initial intention was to use the Summit to set global deadlines for curbing emissions of carbon dioxide, rather as the Montreal Protocol of 1987 did for the CFCs that are eating up the ozone layer. The EC countries, which (with the exception of the UK) aim to bring CO2 emissions back down to 1990 levels by the year 2000, want a clear timetable.

But the US has rejected this approach, and this obvious split between the countries emitting the greatest amounts of harmful gases has made this impossible. As a result the proposed Rio treaty will signal a general intention rather than bind participants to specific emission levels.



Glyn Genin

Rio and its modern cathedral: where good intentions may not necessarily lead to action

Another question is whether the Summit will advance the cause of a carbon tax, which some countries are advocating as a means of curbing consumption of oil, gas and coal. The chief crusader for this cause is Mr Carlo Ripa di Meana, the EC environment commissioner, who has been trying to promote an EC tax on energy and carbon.

EC ministers are due to meet on May 25, days before Rio begins, to decide whether to back a tax.

If they do, Mr Ripa will go to Rio brandishing a proposal which he hopes will set an example for other countries to follow. But there are deep doubts among EC members about the wisdom of adopting a tax unless other countries follow suit, and neither the US nor Japan intends to do so.

A third energy-related issue has to do with the spread of environmental technology. The Summit was supposed to draw up plans to encourage the transfer of technology from the advanced countries to the developing. The fact that Third World power stations tend to use old and dirty equipment was frequently cited in the discussions in support of the case for more aid.

Thus the chances of specific action being adopted at Rio to curb or control energy use seem very remote. There is a conspicuous lack of consensus among participants both as to the size of the threat to the environment and the best means of dealing with it. At its worst, Rio could be a huge anti-climax, and greatly weaken any chance of international co-ordination.

But if it succeeded, Rio could add to the overall political momentum building up for action on the environment anyway. Even if the result is only a generalised declaration of green aims, the fact that leaders from dozens of states signed it would be a palpable achievement.

It would be a conspicuous political act, and could provide a basis for more specific action later on. One aim of the conference will be to set up machinery to keep up the pressure.

● UK conflicts of interest: Page 10

Asia switches on to private power

Wired for growth

THE private power sector is now playing an important role in electricity generation in Asia's developing countries.

Relentless economic growth, and an even faster growth in electricity demand, have opened this door to the private sector. The countries most affected are Pakistan, India, Malaysia, Thailand, Indonesia and the Philippines.

One reason is the high cost of adding new, efficient capacity out of national financial resources, and the perception that the World Bank and the Asian Development Bank are no longer bottomless wells of concessional aid support, particularly given the demands on them from Eastern Europe and the former Soviet Union.

The two Banks have made clear that developing Asia must do more on its own, and they have pressed their borrowers to boost power utility efficiency and revenues through higher electricity tariffs and reduced subsidies to customers.

In Asia, their power sector lending accounts for about 20-25 per cent of all aid, but their own resources are being stretched.

This was underlined recently by Mr William Thompson, ADB vice-president, operations, who said that electricity demand in the 1990s would require the addition of 300,000MW of capacity, more than double that now in place in the region's two-dozen developing countries.

He noted that in spite of a 100 per cent increase in electricity use in the 1980s, Asia's per capita energy consumption was still low by global standards, and would rise sharply. Asia, with 40 per cent of the world's population, accounted for only 20 per cent of total energy use.

With GDP expected to grow annually by 5.5-6 per cent over the 1990s and current account deficits worsening, increased reliance on the private sector to raise finance was required. He stressed such schemes as build-own-operate and build-operate-transfer (BOO and BOT respectively), in which the plant supplier finances the scheme through the sale of power to the state utility, essentially owning and operating the plant until all financing and profits have been recovered.

The use by the World Bank of BOT in Pakistan to structure the $1.5bn Hab River power project, a 4 x 323MW oil-fired power station 50 km west of Karachi, is credited with convincing Islamabad to restructure its two unwieldy utilities, the Water and Power Development Authority and the Karachi Electricity Supply Company, whose total capacity is 8,000MW.

Work on Hab is expected to start this summer, under a consortium of US, British, French, Italian, Saudi and Japanese companies, with delivery of the first unit in three years. Electricity would be sold by HubCo, the managing company, into the national grid. This would pay for the project costs and generate profits over 23 years before the station is turned over to Pakistani control.

Pakistan is encouraging more BOT schemes and plans to hive off some of WAPDA's thermal power stations into similar BOT operations.

India last year introduced laws to broaden the private power base and, in some cases, to allow 100 per cent foreign ownership of power companies. At 65,000MW, just 5 per cent of India's power comes from four private sector companies, led by the Tata Group. All of these are profitable compared with the 18 state-sector utilities, most of which are in deficit.

The issue has proven so successful that the private sector now claims to be capable of adding 24,000MW of new capacity to the grid by 2000 if its proposals are approved. The 1990-95 five-year plan called for 38,000MW of new capacity, but this looks like falling about 35 per cent short under state plans. If the private bids are approved, the gap between private and state electricity generation will narrow sharply.

Malaysia's Tenaga Nasional Berhad (TNB) is now seeing through the flotation of 23 per cent of its shares, the largest such flotation of a state-utility's shareholdings in Southeast Asia. At 5,000MW, TNB plans to increase capacity to nearly 8,000MW by 1995, hence the need for private capital.

By comparison, the Electricity Generating Authority of Thailand (EGAT) is taking a different approach. Its target is to boost capacity to 13,075MW by 1996 from 8,193MW last year. In February it amended the EGAT Act to allow the creation of wholly-owned power generating subsidiaries, whose shares can be sold.

Under this scheme, it has designated three projects for mini-privatisation: the 4 x 300 MW Rayong combined-cycle power plant, the 600MW Khanom combined cycle plant; and the recently-proposed 2 x 700MW Aoi Pai coal-fired power station.

The government has also endorsed the purchase by EGAT and the Metropolitan and Provincial electricity authorities (the two electricity distributors) of up to 50MW of capacity from individual private power generators operating combined-cycle plants.

Uncertainty surrounds the privatisation plans of Indonesia and the Philippines. Indonesia is steering clear of BOT projects.

Current installed capacity of the PLN, the state utility, is 9,000MW, all of it on Java. Indonesian energy officials say plans are to boost this to 20,000MW by 2000. Such an expansion will cost $8bn-$6bn.

Indonesia hopes to offset much of this cost by encouraging more "captive" power stations, those built to fuel company towns and self-contained industrial complexes. Government officials say 40 per cent of the additional 11,000MW of planned capacity could be developed this way.

The Philippines recently refloated shares in the Manila Electric Company, which had been sequestered following the corporate shakeup of para-state companies following the fall of the Marcos regime in 1986. It has said it plans to restructure and privatise the National Power Corporation, the main utility, once the political dust has settled following this month's national elections.

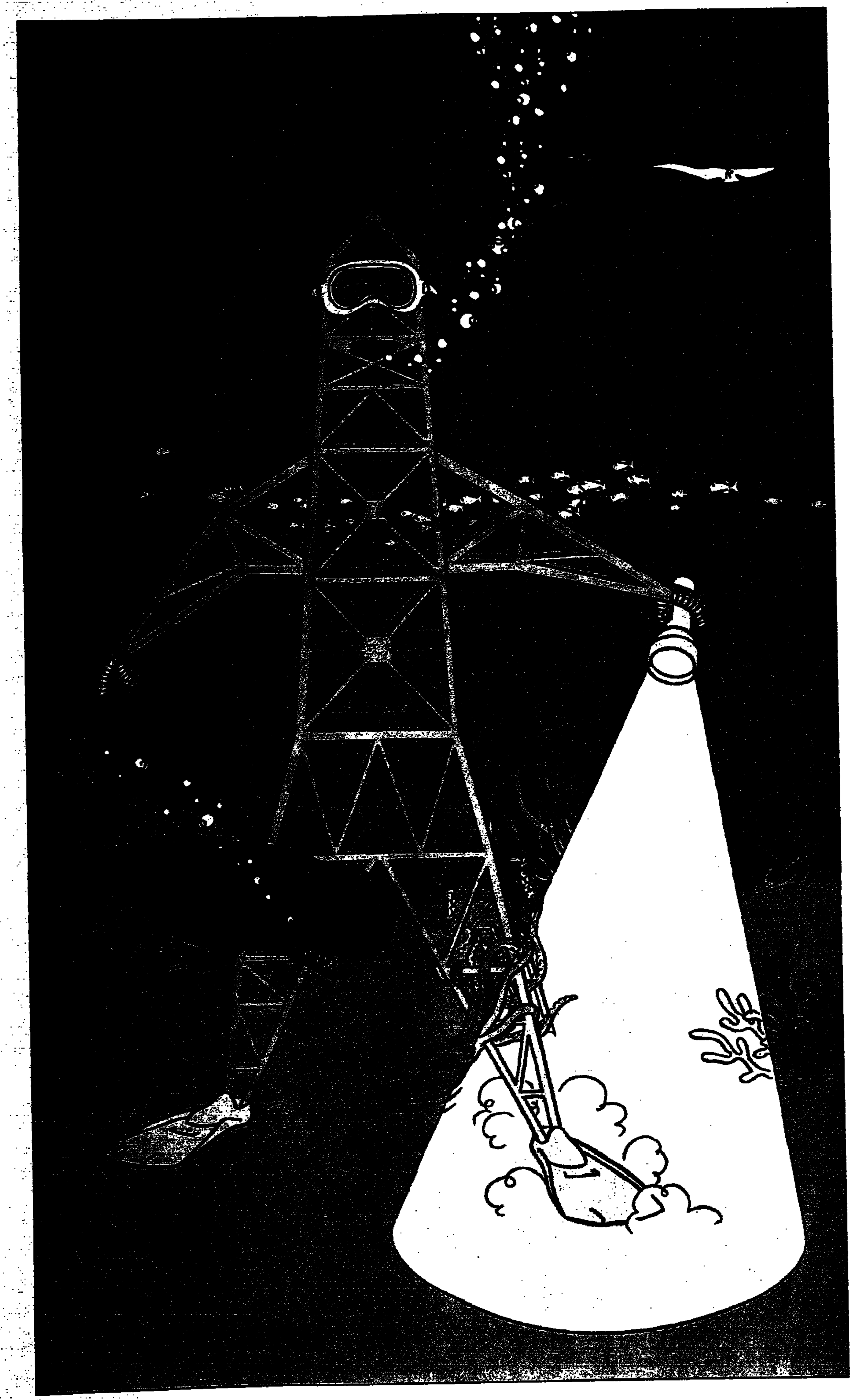
Frank Gray

● Malaysia the pioneer: page 10

To provide Britain with electricity,

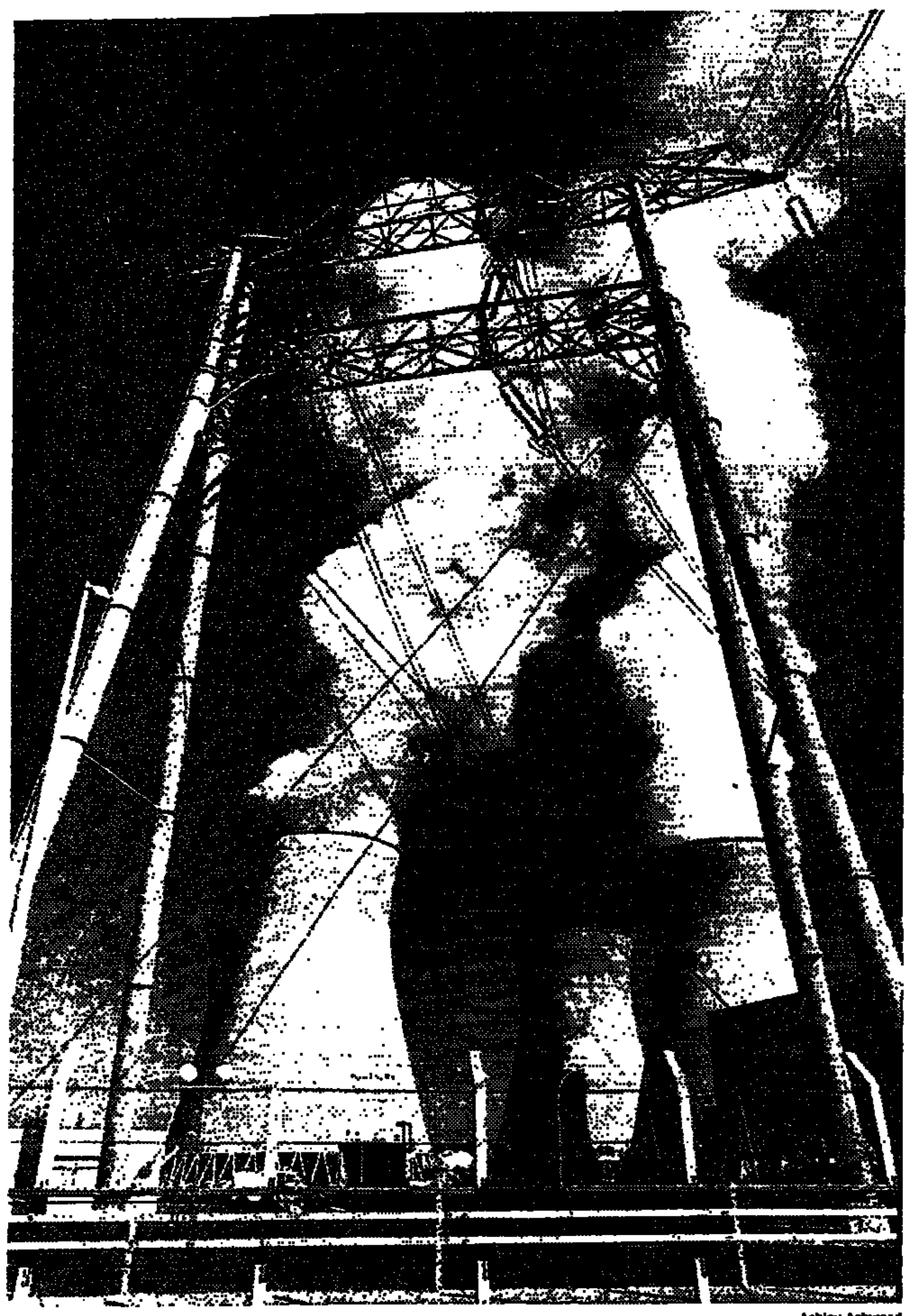
we're constantly exploring new fields.

This one is in the North Sea.



The spirit of Star Trek lives on. For we at National Power are on a mission. To explore new means of generating electricity. To seek out new fuels. To boldly go where no electricity generating company has gone before. This journey of discovery means we're planning to build one of the UK's largest Waste-to-Energy plants. A facility that will produce clean electricity by burning both domestic and commercial rubbish. We are helping to develop Britain's first commercial wind farm. Most encouraging of all, it's meant we're exploiting gas as a fuel for generating electricity. Combined Cycle Gas Turbines (CCGT's) are the power stations of the future. They are much cheaper and quicker to build than traditional coal-fired stations. They burn fuel 30% more efficiently. And they are also much cleaner. Producing 60% less CO_2 and 99% less sulphur dioxide than existing coal burning plants. Of course, the potential of gas requires secure supplies of the fuel itself. So we've bought the output of two entire gas fields. And there is a lot more in the pipeline. Who knows where our journey of discovery will lead next? All we can say is that if there are new ways to generate electricity, we'll explore them.

National Power.
Ahead of
current thinking.



Ashley Ashwood

Full steam ahead for Bugey nuclear power station near Lyon, France

Europe's monopolies defend their territory

Single market stalemate

THE European Community's plan for electricity represents one of the most ambitious aspects of the single market – and also one of its most controversial.

From the moment Mr Antonio Cardoso e Cunha, the EC energy commissioner, put forward his proposals in January, he has been subjected to a barrage of complaint and criticism from much of the EC's electricity industry. So heated have the exchanges been on occasions that an official from one large member state described them as "a dialogue of the deaf".

Does this mean that Mr Cardoso's plan is ill-conceived, or that he has successfully targeted deeply entrenched interests? Part of Mr Cardoso's difficulty lies in the diversity of the EC's power industry, which ranges from huge state monopolies such as Electricité de France to small privately-owned local generators. In some countries, the industry is monolithic, in others it is split between generators and distributors.

Mr Cardoso's original plan aimed to break up the monopolies using the EC's special powers. But that was plainly an unrealistic goal, and Mr Cardoso backed off. Instead, his proposal seeks to attack the monopolies through a different route: by introducing more competition, and making it harder for large companies to use their complex structures to disguise their true costs.

The plan has two main parts. One will give power producers the right to sell electricity to customers in another member state by guaranteeing them access to the local power grid. This is known as third party access (TPA). Initially, TPA will apply only to users of more than 100GW hours of electricity a year, which would limit it to the 400-500 largest power consumers in the EC. But after three years, it would be extended to smaller customers, effectively opening up the entire EC market to cross-border competition.

The second part will oblige integrated companies to unbundle their accounts so that the various segments (generation, distribution, contracting etc.) operate more autonomously. This should make it easier for outsiders to gauge the market and compete.

Mr Cardoso's vision is of a market that will eventually be so fluid that consumers will be able to buy their power from any generator in the EC, no matter how distant. Power companies will also be able to locate plant in other states and become, in effect, multinationals.

Mr Cardoso wants his plan to start next January, but an early timetable seems unlikely, given the high level of opposition. At a ministerial meeting in Portugal early last month, a majority of energy ministers agreed to end monopolies on electricity production and construction of energy networks. But they baulked at the TPA proposals.

Broadly, the EC has divided between the Continental countries, with their well-ordered and (often) state-owned power monopolies which have objections to the plan, and the UK with its newly privatised system which supports it. In between are Mr Cardoso's Portugal, where the industry is partially privatised and is looking for new opportunities, and smaller countries such as Denmark which have given qualified support.

The objections of the Continental power lobby were summed up by Mr Alessandro Ortis, vice president of Italy's Ente Nazionale per l'Energia Elettrica, and president of Euroelectric, the Brussels-based trade group. He told a recent meeting at the European Parliament that he favoured free transit and price transparency. But he believed that the TPA proposals would be damaging.

In Frankfurt, Mr Wolf Heinemann, the deputy director of VDEW, the German electricity trade group, said his members also rejected the proposals. "We are not against competition as such," he stressed. "But we do not believe the plan will lead to higher efficiency."

He warned that it could even drive up prices for small consumers as power generators tried to recoup the margins they lost in competing for the large-customer business.

Mr Heinemann also said the highly integrated German power industry was not susceptible to the same kind of unbundling as the UK industry. If German consumers paid higher prices for their power than others in the EC, this was not due to inefficiency so much as to special local conditions, such as charges mandated to preserve the German coal industry, and tough environmental regulations.

In France, Mr Claude Destival, the director of economics and strategy at EdF, had similar reservations about the practicability of third party access. But he also said that the introduction of unbridled competition would prevent EC member states from having a national energy policy. "Energy policy is too important to be left to market forces," he said.

By contrast, the UK industry is strongly enthusiastic about the plan – which accords with the spirit of the post-privatisation market – though cynics might argue that UK power companies are protected from external competition, having only a single cable connection with the Continental grid.

But UK companies are less interested in exporting power than in establishing themselves in foreign markets. Mr Ed Wallis, chief executive of PowerGen, the smaller of the two main UK generators, says his company doubts that it can compete in France and Germany. But it plans to invest in projects for gas and coal-fired power in Portugal, and in a gas plant in Greece.

Mr Cardoso faces a long uphill battle to win acceptance for his plan, which will come up before its first ministerial council in late May. One political factor in his favour is that the UK assumes the EC presidency for the second half of the year, and will doubtless be gunning for it, though even that may not be enough to get it approved by Mr Cardoso's original January 1993 deadline.

David Lascelles

ELECTRICITE de FRANCE

Heavyweight champion of the world

FRANCE'S state-owned electricity company, Electricité de France, which produced a fifth of Europe's electricity in 1991, is France's 17th largest exporter and claims to be the world's biggest power utility.

It is also a nuclear power in its own right, with 55 operational nuclear plants which supply 72 per cent of its total output.

Its growing capacity surplus has been used by the French government to entice foreign business to invest in France and to sell EdF power abroad at rates foreign companies cannot match.

In 1991, EdF exported approximately 14 per cent of all the power it produced, bringing export sales to a historic high of Ffr12.1bn (£1.2bn), 22.6 per cent more than the previous year.

The leading purchaser was Britain, followed by Switzerland, Germany, Benelux and Spain. At the same time, EdF cut power imports by almost 30 per cent.

Britain will not long remain the largest foreign customer, however. The cross-Channel contract between EdF and the National Grid is up for renewal on April 1, 1993. But it could fall victim to Britain's fast-growing overcapacity of generating plant.

Most EdF export contracts are long-term, often for 10 years or more. On the basis of such contracts, Delaporte has projected that its export balance will continue to expand until 1997, after which it is likely to stabilise at around 70TWh/year for five years.

The generating surplus has been used to lure foreign investment and to export cheap power

However, if cross-border transmission capacities are increased, exports could reach 80TWh by the year 2000, and would then represent about 15 per cent of total EdF production, and an estimated Ffr17bn (£1.725bn) or more in sales.

But there are clouds on the horizon. The company's usually robust nuclear performance has started to falter, (down from a projected 78-80 per cent of total production in 1990 to only 72 per cent in 1991, due to ageing in both the 900MW and 1300MW plants). Hydroelectricity has also been cut by four years of drought.

The two problems have led to a sharp rise in EdF coal purchases, cutting potential profitability.

A more insistent problem is that of nuclear waste: despite improved salvaging of spent fuel, France is accumulating over 5,000 cubic meters of very long-term highly radioactive wastes, and attempts to find a deep burial site have raised hackles throughout the country.

On the EC level, Competition Commissioner Sir Leon Brittan and his staff have issued a series of Directives aimed at breaking up utility monopolies like EdF and its twin, Gaz de France.

By decreeing that other independent utilities may transport and distribute electricity over EdF networks, Brussels is threatening the highly profitable captive domestic market on which EdF's transfrontier aspirations are built. On the other hand, the EC's anti-monopoly Directives also allow EdF to sell its power more easily to individual foreign companies.

Even if it were to increase foreign sales up to the level envisioned by Delaporte, EdF will be hampered by the technical maximum of 300-400 kilometers over which power can be transmitted. Thus Britain, Benelux, southern Germany, the Po Valley, Switzerland, and northern Spain remain the company's physical transmission limits. However, Delaporte says EdF has "no intention of becoming the powerhouse of Europe".

With two west German utilities, EdF is moving fast into Poland, Hungary and Slovakia

French public opinion, which tolerates nuclear production, was unlikely to tolerate sales of French nuclear power to other nations reluctant to produce it themselves. The alternative was to increase income by direct investment in foreign facilities and markets.

The most enticing market remains Eastern Europe, formerly serviced largely by the Ukraine, which with its network of Chernobyl-style nuclear plants produced almost as much power as France. Although Eastern Europe lies beyond EdF's 400-km transmission range, it can be reached by relay sales, whereby, for instance, EdF would sell to Switzerland which would then transfer some capacity eastward.

Before such east-west interchanges can take place, however, the transmission/distribution networks of Eastern Europe must be upgraded to western standards and voltages.

One means of doing so would be to transform alternating into direct current (at a cost of £100m for 1,000 megawatts – the output of a standard nuclear reactor). Another would be to upgrade the electrical facilities of Eastern European countries.

In concert with the German utilities Bayernwerk and PreussenElektra, EdF is moving aggressively into Poland, where the three are in early stages of modernising the Dolna Odra power plant so that it can ship power west to Berlin.

They are also active in Hungary, and are overseeing the construction of the Mochovce nuclear plant in Slovakia. With another partner, the Belgian Tractabel, EdF is planning another Polish power plant in lower Silesia.

EdF is also involved in upgrading nuclear plants, such as Bulgaria's Kozloduy and Czechoslovakia's Bohunice and Dukovany.

With perhaps the world's most advanced distribution and tariff systems, EdF has also been selling its know-how to cities such as Warsaw, Krakow, Lodz, and Moscow.

Michael Bond

Sell-offs are all the rage

□Continued from Page 1

says, have even had to resort to export credit finance, which is unsuitable for infrastructure projects.

Privatisation will not necessarily mean utilities become more efficient, Mr Barnett says. "Competition in generation is a good thing, but in developing countries it can mean a huge proliferation of small scale diesel generators which are efficient only in the narrowest sense."

Developing countries, he says, may experience considerable conflict between government policy on electricity, (for instance its fuel policy), the utility's plans, and the financier's requirements.

That is also true where World Bank financing is concerned, he believes. The Bank has tended to encourage privatisation, but may come into conflict with what the state wants.

Nevertheless, several Asian countries now plan partial privatisation of their electricity industries. Malaysia recently sold off 22.8 per cent of the capital of Tenaga Nasional, the state-owned electricity monopoly, which was "corporatised" in 1990. The company is likely to be restructured further in the near future.

In Thailand, meanwhile, EGAT, the Electricity Generating Authority of Thailand, is still state-owned. However, the government will sell shares in three power stations which were recently set up as separate subsidiaries.

Thailand is also one of many Asian countries including India, Pakistan, Malaysia and even China inviting private sectors to tender to build and operate new power stations. This has become a widespread practice in Asia.

"The impetus for privatisation may have come from the UK," says Dr Tony Wheeler, manager at Ewbank Preece, an engineering consultancy which advises governments on restructuring electricity industries.

"The World Bank has jumped on the bandwagon too. These countries really need to raise capital – for instance Pakistan can only borrow enough to build one power station – and they need 10."

The country has long planned foreign investment in the power station it plans on the coast near Karachi, but has made little progress in agreeing a deal that suits all parties.

Although the South East Asian electricity systems are typically modern and so in fairly good condition, Mr Wheeler believes bringing in private capital could help the countries become more efficient. "Pakistan has 165,000 staff to sell 10,000MW – that does not look good for the efficiency of the organisation."

In South America, too, privatisation is underway. Argentina's aggressive privatisation programme led to the sale of Central Nuevo, a generating company created from the state-owned electricity monopoly Segba.

The company is now owned by two privatised Chilean power companies, Chilgener, and Chilectra, which outbid European and US companies to win a 60 per cent stake in the company. Argentina plans to sell the whole of the electricity industry.

Chile itself has already privatised its electricity industry: Endesa, Chile's largest electricity business, is one of the country's most profitable private sector companies.

Although Mexico expects to keep the electricity utility in the public sector, it has invited private sector companies to bid to build electricity plant.

A few other developed countries, notably Australia and New Zealand, are making some moves towards electricity privatisation. But this is unlikely to be in the near future, or to follow the UK model.

Ring of confidence: the doughnut-shaped JET reactor which achieved last November's breakthrough on atomic fusion

Clive Cookson reviews progress towards the ideal power source

Small steps for mankind

OF ALL technologies currently under development for generating electricity, nuclear fusion offers mankind the best prospect of clean and limitless energy in the 21st century.

Or so supporters of fusion research say. Critics point out that the commercial reality of nuclear fusion power always seems to lie about 40 years in the future.

In the 1950s when the Soviet, US and UK governments set up laboratories to develop peaceful uses of fusion – the process that fires the sun and the hydrogen bomb – many physicists believed that fusion power stations would be delivering cheap electricity in the 1990s.

As it turned out, scientists achieved controlled fusion for the first time last November, in a doughnut-shaped experimental reactor, the Joint European Torus (JET) at Culham near Oxford. The ring of super-heated gas reached a temperature of 200m deg C – 10 times higher than the middle of the sun – and generated almost 2MW of power in a two second pulse.

The JET experiment produced triumphant newspaper headlines, along the lines of "Science Tames the Power of the Sun". And it was indeed a technical triumph. But the output was only 10 per cent of the power put into the reaction.

Several more decades of development, costing tens of billions of dollars, will be required truly to replicate the power of the sun and make fusion into a reliable energy source.

Even enthusiasts do not envisage a full-scale demonstration fusion plant operating before 2030, with widespread commercial application in the 2040s.

The scientific case for fusion power seems irresistible. The process forces together the nuclei of light atoms – in practice two isotopes of hydrogen: deuterium and tritium. This releases energy in the form of radiation and heat that could be used to raise steam and run a turbine-generator, as in a conventional power station.

Fusion is the opposite of fission, the basis of nuclear power today, which releases energy by splitting heavy atoms of uranium or plutonium. The theoretical advantages of fusion are that it uses virtually inexhaustible raw materials (deuterium extracted from sea-water and tritium made inside the fusion reactor from the light metal lithium), it produces far less radioactive waste than fission and it is inherently safe because the reaction stops as soon as anything goes wrong.

Scientists have now simulated the heat of the sun – for two seconds

The nuclear energy locked inside just 10 grams of deuterium and 15 grams of tritium would be enough to generate a lifetime's electricity for the average inhabitant of an industrialised country today. But formidable technical obstacles must be overcome before that energy can be extracted under controlled conditions.

The reaction cannot start until the deuterium-tritium fuel is heated to become an electrically charged gas, known as a plasma. The reaction stops as soon as the plasma touches the sides of the reactor because it then becomes too cool to sustain fusion. JET and similar research reactors in the US, Russia and Japan aim to confine the plasma inside a "magnetic bottle". Powerful electromagnets loop around the torus, keeping the plasma away from the walls for as long as possible.

Other approaches have been tried on a smaller scale, for example focusing laser beams on to the fuel, but most fusion scientists believe in the torus reactor – invented in the Soviet Union about 50 years ago.

(The highly publicised "cold fusion" technique, announced in 1989 by Professors Martin Fleischmann and Stanley Pons, allegedly offered the benefits of controlled fusion on a test-tube scale at a tiny fraction of the cost of hot fusion. The Fleischmann-Pons work has been largely but not entirely discredited. Experiments with cold fusion are still going on in several laboratories, and EPRI, the collaborative research arm of the US electric utilities, continues to support some research on it.)

Fusion research is one of the most expensive forms of "big science". JET has cost 14 European countries about £1bn to build and run over the last decade. And the next stage of development will cost much more than that. So the four "fusion powers" – Europe, US, Japan and Russia – are beginning to design it jointly as a global project: the International Thermonuclear Experimental Reactor.

Planning ITER will take at least five years and cost an estimated $1bn. There will be three design centres (San Diego, US; Garching, Germany; and Naka, Japan). Then, if the participants can agree on the design and a site for ITER and find $5bn to build the reactor, construction could start in 1997-98.

On present plans, JET is due to have a final series of experiments in 1996, which should generate about 10MW of power. That will leave a gap of at least eight years for European fusion research until ITER starts to operate – in 2004 at the earliest. However Japan and the US are planning to build interim reactors to gain more information about plasma physics in the meantime.

Even if the world's fusion scientists manage to build ITER on schedule and operate it successfully, at least one more stage – a demonstration power plant – will be needed before utilities can contemplate constructing fusion reactors.

By then more than $100bn will have been spent developing fusion energy over 80 years. Compared with the $1,000bn a year which the world spends on energy today, that is a modest investment in our long term future.

China and India put coal first, writes **Guy Doyle**

Electrification is the top priority

CONTINUING rapid electrification of the Indian and Chinese economies will keep power demand growing at 8-10 per cent annually during the 1990s, resulting in a doubling in electricity demand and power station coal burn by 2000.

Growth could be higher, but the world's two most populous countries seem destined to see demand capped by their limited ability to bring on new generating sets. A blinkered emphasis on bringing capacity on stream quickly pays scant regard for the environment.

The two countries' problems stem from the fact that they have much ground to catch up. Both have a very low level of electrification. Some 400m people – a quarter of their combined populations – still lack access to electricity. Average power consumption per head is a fifth of that in Thailand

An extension of electrification into the more remote rural regins will boost demand, but not as much as building new stations and improving the lamentable performance of the existing stations.

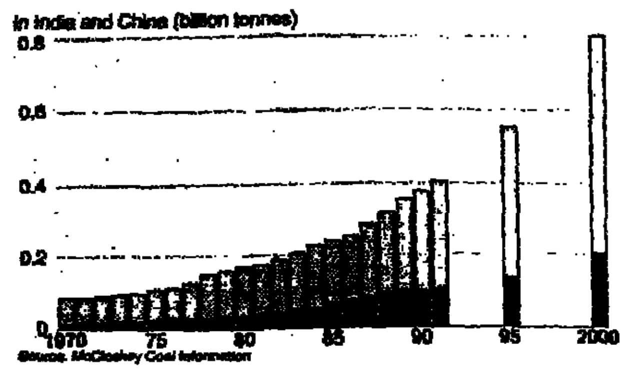
China has for more than a decade acknowledged that her factories have suffered regular and prolonged power cuts due to capacity shortages. It is estimated that power cuts force industry to stand idle for a third of the time.

In India, the situation is less desperate, although persistent shortages have occurred in some areas, while all areas have been plagued by temporary cuts because of fuel shortages or urgent repairs to power stations. Plant availability, the proportion of time which generators can be on full power, has been low in both countries; well under 75 per cent for most years.

While aid agencies, led by the World Bank and Asian Development Bank, have been keen to boost the performance of existing stations, most of the emphasis has been put on building new plant. Both countries are planning for coal fired capacity to be more than doubled by 2000.

Power station coal burn

In India and China (billion tonnes)



Source: McCloskey Coal Information

Financing this build-up is a challenge for the state-owned utilities. India, and to a lesser extent, China, has sought to involve private and foreign investors in power generation. China took the initial lead in the mid 1980s, with its Shajiao B (700MW) coal station built by Hong Kong's Hopewell Holdings and operated under a build-own-operate deal.

However, it is India which is setting the pace now, having at the end of 1991 passed legislation, paving the way for private investment in power stations.

More recently, in an effort to underscore the commitment to private power, the government has said that private power station backers can also invest in captive mines to feed the stations.

In this rush to build plant the environmental concerns, as the OECD sees them, have been largely ignored. An analyst close to the World Bank says mention of the environment in India or China brings the response of "oh, the problem with dams". Acid gas and carbon dioxide emissions are nowhere near the top of the agenda.

While Mrs Maneka Gandhi raised the exposure of India's environmental department, the energy ministry have made few concessions in the direction of cleaner power generation, save that of landscaping new power plants. Flue gas de-sulphurisation, by which stack gases are scrubbed of sulphur dioxide, is considered an excessively expensive option especially given that Indian coal has a comparatively low sulphur content.

The Chinese environmental movement barely keeps its head above water. The comment in Beijing about FGD is: "very nice, but who's going to pay for it?"

Increasing the efficiency of generation provides some scope to limit the damage from the planned increase in coal generation. Larger unit sizes with higher operating pressures and temperatures, greater emphasis on preventative maintenance, better system integration could boost efficiencies from the current levels of around 30 per cent to near 35. This could save up to 120m tonnes of coal in 2000.

Even so, China and India are set to see a big increase in power station coal burn over the decade. By 2000, some 800m tonnes will be burned, virtually all of it in plant without control on sulphur dioxide or nitrous oxide emissions.

Telling these giants to clean up their act will be futile, especially when these countries are still trying to raise per capital electricity consumption to third the level of the OECD in the 1950s.

The writer is associate editor of *International Coal Report*

Juliet Sychrava looks at UK privatisation two years later

Knives are out for the CEGB's mighty offspring

ELECTRICITY privatisation, the pundits agree, has been a curate's egg. Bits of it – like trimming the fat from the Central Electricity Generating Board (CEGB) – have been good. And bits of it – like failing to give the industry any incentive to conserve energy – have been bad.

But the very worst bit of the egg, everyone from accountants to politicians agrees, was the decision to create only two large privatised generators, National Power and PowerGen, out of the CEGB's generation business.

Offer, the electricity watchdog, summarised the market's worries about the "duopoly" position of the two generators in its December report on the operation of the "pool" or wholesale market in electricity.

Although some competition had emerged, Offer said, "emerging experience in the Pool suggests that the dominant market position of the two major generators gives them the ability to influence and control Pool Prices. This is not likely to inspire confidence in the Pool, nor be conducive to further new entry."

Offer did not, it said, rule out referring the two large generators to the Monopolies and Mergers Commission (MMC).

Offer's fears were echoed by the Commons Energy Select Committee, in its February report on electricity privatisation. Offer, it said, "should take steps as soon as possible to reduce the dominance of the two generators," and by not later than 1995 it should decide if they should be referred to the MMC. But neither the Commons committee nor Offer suggested a satisfactory solution to creating more competition to challenge National Power and PowerGen.

So far, the following strategies have been suggested:

Break up the generators:
The most extreme solution, and one often suggested by large electricity consumers, and British Coal.

"It is physically and operationally feasible," says an accountant closely involved in the privatisation. But although the recent sale of Northern Ireland Electricity's power stations showed there would be no shortage of buyers for individual stations or groups of stations, it would be difficult. A break-up would mean a loss of value for existing shareholders, who could take legal action and call for compensation.

It would also be disruptive, in an electricity market that has scarcely found its feet.

Swap the government's 40 per cent stake in the generators for assets, then sell the assets to industry buyers:
It has been rumoured that the government might cancel its 40 per cent shareholding in the generators, take over power stations of that value instead, and then sell them to other generating companies. This would create more competition and put pressure on the generators to keep their prices down.

The idea has been discredited by the generators, who point out that this would be against the interests of the other 60 per cent of shareholders, because it would make the generators less competitive. It would also be hard to find assets which equal the £2bn market value of the government's stake without seriously damaging the generators' business, they argue.

The worst bit of the curate's egg was to create only two big private generators

Force the generators to sell off stations which they intend to close or mothball:
This would stop them from manipulating supply and demand in the market by opening and closing stations, and would give other generators a chance to win more market share.

But, the generators have pointed out, if they cannot run plant, no smaller generator will be able to do so. And if they can, they will keep it open.

Neither MPs nor the regulator have explained how to sharpen competition against the Big Two

Regulate the generators' costs/profits:
This would ensure that the generators do not overcharge the regional companies and large customers who buy from them on contracts. Some large customers have suggested the generators are already keeping too big a margin over costs, while the generators insist they could not make money if they sold contracts more cheaply.

But regulating costs or profits would be time-consuming – the regulator would have to examine the power station business in detail. It would also go against the principle of the new market, which was that the generators would operate like private sector companies, and competition would keep their costs down.

Change the rules in the pool and the contract market:
There are a number of proposals for modifying the pool, and the method whereby contracts to buy and sell power are agreed outside the pool – most power is still traded in contracts.

These include making contract negotiations more transparent, so that customers have a sense of the market price.

Changing the way Nuclear Electric, the third generator with substantial market share, sells power under contracts has also been suggested. At the moment, the company invites tenders for the contracts and then sets a price that customers argue may bear no relation to underlying costs. Making the price for Nuclear Electric's contracts more transparent and cost-reflective is important because National Power and PowerGen have used it as a benchmark for their own deals with customers.

It might also help to have a more active market in contracts. There is already an embryo market, set up by Gerrard and National, but so far trading has been moderate. A liquid market in contracts would help promote transparency and give the generators' consumers more information about the market.

Encourage competition to enter the market by making sure the pool gives clear supply and demand signals:
An important criticism of the pool is that it is not a good mechanism for giving generators signals about whether to build new stations or not. The way the price of electricity in the pool is set means that at times of peak demand or short supply, a "capacity" premium is triggered, pushing the price up.

This is an erratic message, which makes it hard for companies to plan investment in new power stations by assessing the demand for more power. It thus inhibits competition to the two big generators.

Also, because withdrawing plant from the pool will push up the "capacity" element of the pool price the generators have an incentive to manipulate supply and demand by closing plant. The Commons select committee suggested that this system for rewarding generators for building capacity should be changed, but had no exact plans for how this would be done.

Wait and see:
The government's answer to the problem so far has been to wait for the market to mature, and for competing generators to emerge, and challenge the big two.

But the Commons energy select committee has argued that that is not happening. Although privatisation brought a rash of new independent generators who announced they were building gas-fired power stations, many of their projects have foundered because of a shortage of gas at the right price.

More worryingly, it now looks as if many of the new stations that are built will fail to provide the competition the government expected.

That is because the stations have secured long-term contracts to sell their power to regional electricity supply companies, who then sell it on to captive domestic consumers. Because these consumers buy power regardless of the market price, the stations will not have to compete in the market. Worse, they may capture demand that existing coal stations could have supplied more cheaply. This, the select committee argues, must be urgently investigated by Offer.

Even if Offer scrutinises every independent power project, the question of whether it will produce power at a market price in 15 years time is highly speculative. At best, Offer could assess how competitive the project's gas price, site, and technology were relative to other projects.

So far, the independent power stations due later this decade show every sign of using modern technology and bargaining hard for competitive gas and the best financing package possible.

It is true that they rely on long-term contracts rather than the pool price – but most power is still sold in the contract market, if on shorter contracts. There is even a chance that the pool itself will become marginal to the electricity market.

RETAIL PRICES

Have faith, customers told

ELECTRICITY prices in Britain will come down as a result of privatisation. That is what Mr John Wakeham, former energy secretary, has said and what industry leaders such as Mr John Baker, chief executive of National Power, believe.

The message to consumers is – wait and see. Give the new electricity market a chance to work, and prices will begin to fall.

Not everyone is so sanguine. "The competitive market which was promised has not yet materialised," was the damning verdict delivered by the Commons energy select committee in February.

Offer, the electricity industry watchdog – itself the focus of much criticism from large consumers who say it is not tough enough – echoed this in its annual report. "The lack of effective choice in the market this year is a most unsatisfactory feature of the present situation," it said.

These two reports came two years after Mr Wakeham launched the privatisation of electricity with the words: "From now on, there will be unprecedented levels of competition in electricity supply. The price of electricity will begin to be driven by market forces."

He added: "I believe that electricity privatisation is going to be good news for all the industry's customers, and good news for its employees."

Employees, especially those who have bought shares, may well agree. Customers are a different matter. Over the last few months the complaints of large electricity consumers about how privatisation has pushed up their electricity bills have filled the press.

"Angry and frustrated electricity users" assembled on April 7 to complain against "unacceptable and unreasonable price increases," said the Major Energy Users Council (MEUC). New contracts had been forced on users faced with little evidence of the promised "competition" or opportunities to shop around, it added.

The MEUC has long argued that its larger members – steel, paper and chemical companies – face increases in the basic cost of their electricity of up to 30 per cent this year. Privatisation, it says, has failed large electricity users, and made them uncompetitive in Europe.

Mr Neil Tribick, vice chairman of the electricity group of the MEUC and group energy buyer for Rank Hovis MacDougall, says the company will have to pay around £18m more for its electricity this year.

The National Health service, with 130 sites around the country, is expected to face increases of between 14 and 28 per cent, according to the MEUC. One paper company has written to Mr Wakeham saying it faces increases of 20-25 per cent.

But the government and generators argue that these companies are not typical. Very large electricity users face especially high increases, because they formerly received government subsidies removed at privatisation.

Moreover, the government adds, the place for large consumers to complain about their bills is Brussels. Prices are lower in Europe because governments subsidise their electricity bills by charging domestic consumers more, while the UK government has ruled out cross subsidies of this kind.

But what electricity costs the average industrial consumer is hard to measure. Mr John Topliss, chairman of the MEUC electricity group, says most companies are paying around 10 per cent more than before privatisation, while National Power says they are paying just marginally more.

'I believe that electricity privatisation is going to be good news for all the industry's customers and prices will begin to be driven by market forces'
– John Wakeham, energy secretary, in 1990

Surveys from consumer groups such as the MEUC and the Energy Intensive Users Association suggest that prices to average industrial users fell by between 10 and 20 per cent after privatisation – in the year from April 1990.

They then rose by 5 to 6 per cent in the year from April 1991. This year (from April 1992) increases are expected of 10 to 20 per cent.

The Department of Energy's publication Energy Trends shows large electricity consumers paying 3.55p per unit at the end of 1991, compared with 3.51p at the end of 1989.

But although some customers are paying more than before privatisation, some are clearly paying around the same, or even less.

Mr John Baker, chief executive of National Power, says customers must just be patient, because prices are starting to fall and will fall further. "There are prospects for real long-term reductions, partly from the working through of lower fuel prices – provided our plans for cheaper fuel aren't frustrated – and partly from the impact of competitive pressures on our costs."

"Before privatisation it was said the old area boards used to treat large customers like chattels. If they do that now, the customers can walk elsewhere."

So far, the generators' profits do not suggest they are overcharging. It is equally hard to counter their argument that last year's lower prices were an unsustainable phenomenon due to lower oil prices, high coal stocks and post-flotation jostling for market share.

Domestic consumers, meanwhile, are not doing so badly. Their bills will go up by around 2.5 per cent this April, compared with increases of an average 11.3 per cent last April, and around 4.6 per cent in April 1990.

But Mr Frank Dobson, Labour's energy spokesman, argues that this year's modest increase is no proof of privatisation's virtue. "In the run up to privatisation, prices were artificially high, as part of the fattening up process." Domestic prices, he calculates, have increased by around 40 per cent since 1986, the year privatisation was announced.

There has, however, been other good news for all consumers. Not only have the regional electricity companies improved their service, but the government no longer subsidises heavy industry at the expense of householders.

Consumers also know far more about the costs of nuclear power, previously hidden in the CEGB. And investment in new environmentally-friendly technologies has moved ahead.

Juliet Sychrava

BRITAIN'S electricity industry is about to face one of its first public challenges since its privatisation.

It will happen at a planning inquiry next Tuesday, into a proposal to build 90 kilometers of high voltage transmission lines to take power from the new 1,875 MegaWatt gas-fired power station at ICI's Wilton site, Teesside.

The power station, developed by a consortium led by the US Enron Corporation and including a number of regional electricity companies, is the biggest built in Britain for about 30 years. It is due to open in the autumn and be fully operational next spring.

In order to distribute its power throughout the rest of the country, the NGC plans the longest stretch of new 400 kilovolt "super-grid" built in Britain since the 1970s.

However, it has aroused protests from no fewer than 8,500 objectors, including the North Yorkshire County Council and six other local authorities, the Council for the Protection of Rural England and the Country Landowners Association.

Most of the protesters are incensed at the suggestion that the new super-grid line should *pass through the Vale of York*, at the foot of the beautiful North Yorkshire Moors national park.

Although it will not prevent the power station from running, the hearing will be something *of a baptism of fire for* the privatised electricity industry as a whole and for the NGC in particular.

The NGC is responsible for developing and maintaining the transmission system, a job previously carried out by the State-owned Central Electricity Generating Board, which, unlike the NGC, was able to coordinate the planning of transmission with that of new generating capacity.

The hearing will, therefore, also provide a forum for the widespread complaints about Britain's lack of an integrated national energy policy.

Wilton power station is only the biggest of the new plants due to expand an already bloated electricity generating industry. Several objectors therefore query whether the Wilton power station should be built at all.

They point to the NGC's own comments last month when it published its third annual seven-year projection of demand and supply in the electricity market. It noted that some 28

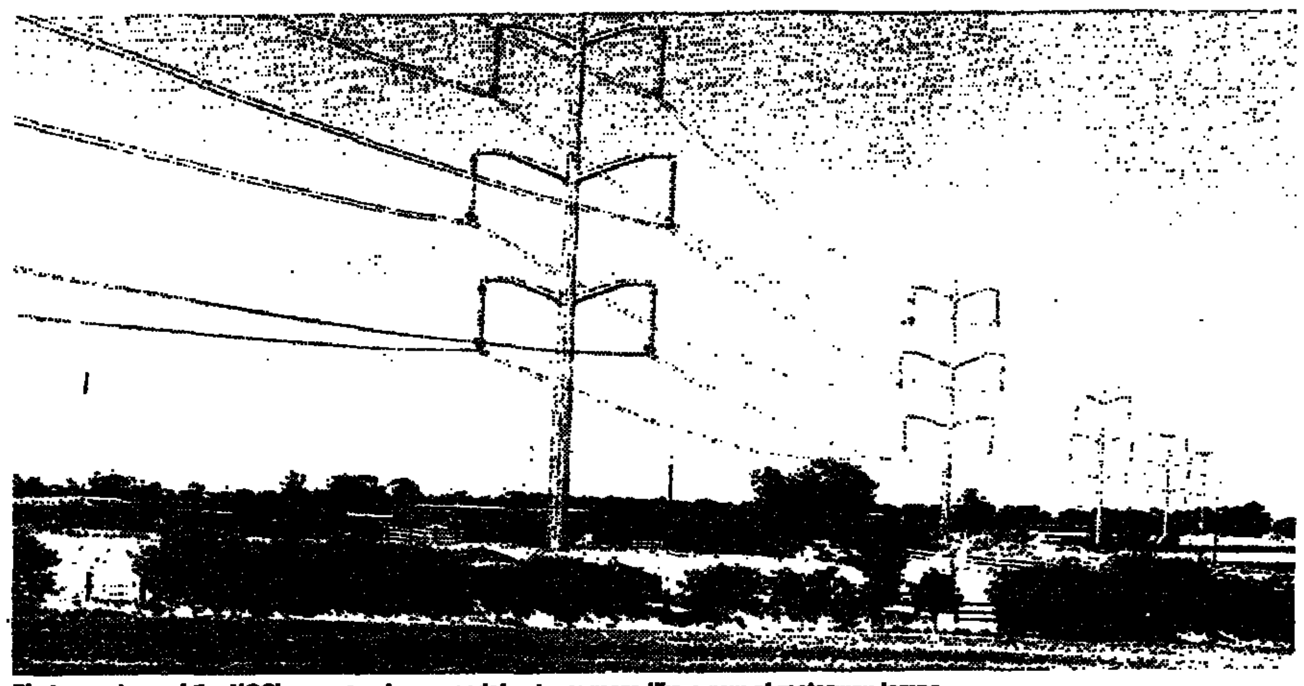


Photo-montage of the NGC's proposed new model pylons: more like a row of motorway lamps

National Grid faces a baptism of fire, writes Maurice Samuelson

Battle in the Vale of York

new power stations have so far been committed to the high voltage transmission system, and that the excess of generating plant over demand would jump from 26.8 per cent in *1992/3 to 56.9 per cent in 1997/8*, unless, as seemed likely, existing plant were decommissioned more rapidly than would otherwise happen.

The statement reported a continuing imbalance whereby the south of England contained 55 per cent of electricity

Objectors have complained to Brussels that Britain has again ignored a European planning directive

demand but only 40 per cent of generation. While not criticising any particular station, it added that the further developments in the North would probably involve heavy additional investment in transmission.

Many of the objections to the grid line and the power station are of the "not in my backyard" variety. Some protesters argue that if more power is needed it should be produced in the main centres of population where it is needed and not be transported over long distances from other parts of the country.

The electricity industry *argues that the Wilton plant*, fuelled by North Sea gas, will improve the environment because it replaces "dirty" coal-fired electricity. It also claims that it will produce cheaper power and will therefore be in the public interest.

The Inspector will probably regard this debate as outside his remit and simply report it to the government. But the objectors have already anticipated this by accusing the government of approving the power station without the correct procedures.

The Council for the Protection for Rural England complained to Mr Carlo Ripa de Meana, the EC commissioner for the environment, a year ago, saying that Mr John Wakeham, the Energy Secretary, had breached EC rules by failing to make the transmission lines and the new gas pipeline the subject of separate assessments of the Wilton station's indirect environmental impact.

If Mr de Meana agreed, that could spark another clash between Brussels and Britain on environmental issues like that over the controversial roadworks at Twyford Down near Winchester.

In consultations over the super-grid extension, the NGC has tried to allay local concerns by offering a choice of final routes for the cables. It has tabled three alternatives for the sensitive 50km section from Picton to Shipton and another two for the 27km immediately south of Teesside.

But that has not satisfied some objectors who say that the power should not come south but should be routed over the Pennines to North West England. The NGC says this is technically and financially difficult.

There have also been suggestions to make the cables invisible by burying them. But this, too, has been rejected. Although there would be no overhead lines, passers-by would still be able to see the series of pumping installations needed to control the pressure of the insulation oil in which *underground cables are* immersed.

All of which could leave the objectors with only the shape of the new grid line's pylons as a subject for discussion. Here, too, the NGC is trying hard to offer an unprecedented choice to the public.

The current standard shape of electricity pylons still roughly resembles the Meccano-type structures designed for the industry by Sir Reginald Blomfield, a member of the Royal Academy, back in the 1930s.

NGC engineers have now drafted a series of new styles, of which the least traditional is a folded plate tower similar to motorway lamp standards. More than 1.5 metres wide at its base, it requires deep concrete foundations.

To build them in the countryside could cause inconvenience to farmers, and, unlike the *slender feet of the existing* towers, take up useful grazing land.

In addition to the folded plate tower, NGC engineers have also devised a variants of the present latticed tower. Known as the L12, it is known among NCG engineers as "Eifellated" because of its vague resemblance to the France's most famous landmark.

It has upward-swept arms compared with the drooping arms of most British pylons. It is also lower and lighter than the biggest towers, the 50 meter high structures, which were were the mainstay of the last significant phase of grid construction in the 1960s and 1970s.

Meter men become an endangered species

House calls may end

ELECTRONIC meters combined with modern communications technology could transform the relationship between electricity suppliers and their customers.

Two-way communications enable the supplier to read the meter remotely whenever it wants, without needing to visit the premises. And more significantly, they enable the consumer automatically to buy electricity from competing suppliers at the most advantageous price.

The UK electricity industry and meter manufacturers have been experimenting with remote meter reading on a relatively small scale for more than 10 years.

But there was no impetus to introduce the technology nationwide – *until last January* when Offer, the Office of Electricity Regulation, published a consultation paper on electronic metering. It says the industry should have "a framework of modern metering and communications" in place by 1998, the date by which the UK's 22m households will be free to choose between alternative suppliers.

Prof Stephen Littlechild, the director-general of electricity *supply, has* become an enthusiastic advocate of modern metering, in the face of widespread doubt and scepticism inside the industry.

The electricity companies are frightened by the cost of *giving every home an electronic* meter and communications links, estimated at well over £1bn. They doubt whether many domestic consumers actually want such sophisticated service. And *they fear confusion if incompatible* systems are set up, using different methods of communication.

However the companies know that in the face of the regulator's enthusiasm, they *have to respond positively to* the Offer paper. The Electricity Association is expected to submit a response on behalf of the industry next month.

Three alternative ways of communicating between electronic meter and electricity supplier have been developed:

- Radio signalling is already used on a large scale in the UK as a one-way communication system to households on the Economy 7 tariff. The electricity companies send coded messages via BBC long-wave broadcasts to small receivers fitted beside the meters. The signals (which are inaudible on an ordinary radio set) activate switches to alter the tariff on a multi-rate meter or turn selected appliances such as electric heaters on and off. This system cannot be used for remote meter reading or two-way communications. However mobile radio systems have been developed in the US to read meters: vans equipped with short-range transmitters and receivers tour the streets, sending signals to nearby houses; the signals activate a transmitter in the meter, which sends its reading in code back to the van.
- Telephone is the simplest technology for communicating between consumer and supplier. Equipment is available to connect an electronic meter to the household phone line. The electricity supplier can *then interrogate the meter* automatically to receive a reading or change the tariff. But disagreements between telephone companies and the electricity utilities over pricing and technical arrange*ments have delayed the intro*duction of telephone-based meter communications in the US and UK.

In the US and UK, the telephone and electricity companies have failed to agree on phone based meter reading

- Mains-borne signalling sends messages down the electricity mains themselves. Its *supreme advantage from the* industry's point of view is that it uses its own infrastructure and does not depend on telephone companies or broadcasters. The problem is that the flow of electricity creates such *a lot of interference*, particularly at peak periods, that the signals may fail to get through. However Thorn EMI in the UK and General Electric in the US have committed considerable technical resources to make mains-borne signalling more reliable.

As the Offer paper on metering points out, "it is unlikely to be economic for one customer to choose a mains-borne signalling system and a neighbouring customer a radio teleswitch system". In practice, the regional electricity companies will have to choose the technology for each area.

But that does not mean the whole country need choose the same system, Offer says. "One system may be more suited to more or less densely populated areas and in the longer term some comparison between systems will be helpful."

Clive Cookson

Doubts on the UK dash for gas

North Sea bubble

WHEN Roosecote power station opened in Barrow-in-Furness last October, it was hailed as the first in a new generation of gas-fired power plant that would provide new competition for the privatised UK electricity industry.

Referring to the 20 "significant" private power projects that are in the pipeline, Mr John Wakeham, the then energy secretary, said: "I am convinced that independent projects are poised to play an increasingly important role in the future of the electricity generating market."

But the proliferation of these projects has not been welcomed by *all of Mr Wakeham's* fellow politicians. The House of Commons select committee on energy has issued repeated warnings that the construction of many new gas-fired stations could be a case of "competition for its own sake".

National Grid, the company which owns and operates the electricity transmission system, cautioned last month that if all of the current power projects came on stream, they would contribute to 60 per cent over-capacity in the market by 1997.

The company said it had 28 applications from new independent projects to join the national grid, amounting to 22,370 MegaWatts of new capacity by 1997.

This implies that around 10 older, coal-fired stations would have to close in order to achieve a more reasonable margin of 30 per cent excess capacity. It highlights a fear in the industry that the days are numbered for many efficient coal-fired plants.

In addition, the economic case for many of the new gas stations has not been proven. Critics argue that, for many of the projects, high gas prices will lead to an electricity price higher than that of the coal-fired plant.

Since many of the regional electricity companies are partners in a number of the gas-fired generation projects, the critics claim that higher electricity prices will be passed on to the captive domestic consumer.

Gas-fired power stations are undoubtedly cleaner than coal stations and many advocates of the new wave of generating plant point to their environmental benefits. But British Coal has estimated that, if coal plant is fitted with scrubbers which reduce emissions, the price of *the electricity* produced would still be slightly lower than the cost of power from a gas-fired plant.

Mr David Porter, chief executive of the Association of Independent Electricity Producers, *justifies the dash for gas*: "Britain should enjoy the benefits of diversity in power generation and that includes a role for coal, but the electricity industry cannot sustain itself by pricing its product on the output of fully depreciated coal-fired power stations."

The great wave of interest in new generating plant came with the blessing of the government when the electricity industry was privatised just over two years ago. Mr John Wakeham, energy secretary (the position has now been axed), *was keen to see* the development of competitors to National Power and PowerGen, the privatised generators of England and Wales carved

Critics say gas plants will raise retail electricity prices and that some are economically questionable

from the old Central Electricity Generating Board.

Overseas energy companies rushed to link up with regional electricity suppliers in a bid to build new plant. Simultaneously, the two generators themselves announced plans for an ambitious construction programme of gas-fired power stations.

At the time, gas prices were reasonable and supplies were plentiful. But as British Gas became inundated with a flow of enquiries for gas contracts, it realised it would not have enough gas supply to fill them all.

By March last year, the company moved to push up gas prices and cut off demand, in the process rendering many of the proposed power projects uneconomic. British Gas was eventually forced by its regulator to reduce its price increase although it has limited the availability of gas. Since the new price under the so-called LTI3 schedule is still higher than the pre-increase price, many of the projects teeter on the brink of viability.

So far, nine projects have signed contracts for gas supply with British Gas, several others are pursuing deals with other producers and four additional projects are confident of securing supply. In addition, 10 projects have received planning permission.

As well as the cost of gas supply, the location of the project and the efficiency of the plant will also influence its economics.

But it is probably true to *assume that not all of the 28* projects which have applied to the National Grid for a connection to the transmission system, will eventually be built. Consultants and industry observers estimate that *between 14 and 20 projects are* viable.

Deborah Hargreaves

Turbine makers cash in on gas revolution, says **Andrew Baxter**

Survivors share the spoils

THE world's major suppliers of power generating equipment are emerging in better shape from the painful restructuring of the late 1980s, but the flow of deals in a complex industry has not yet been switched off.

Over the past five years, there have been two important and partly overlapping corporate trends which have changed the face of the power equipment industry.

The most obvious is the response of western, and especially European, suppliers to a long-standing problem of overcapacity and to the challenges of pan-Europe and global manufacturing.

The result was the mergers of the power engineering businesses of the UK's GEC and Alsthom of France, and the creation of Asea Brown Boveri from Asea of Sweden and Switzerland's Brown Boveri. Subsequently ABB paid $1.6bn for Combustion Engineering, the big US boiler maker.

Both ABB and GEC Alsthom have emerged stronger from the upheaval caused by these link-ups, through eliminating duplication and consolidating manufacturing to ensure they have the ability to withstand market downturns and still spend heavily on research and development.

The second trend is based on technology, and especially the need for equipment suppliers to have access to the gas turbine technology that forms the basis for combined cycle power generation.

Deals exemplifying this trend include the 1989 joint venture between the UK's Northern Engineering Industries, which lacked access to large gas turbines, and ABB, which needed a direct presence in the UK power station market; and the longstanding co-operation between General Electric of the US and Alsthom of France – and hence now between GE and GEC Alsthom.

Most of these deals now look to be in place, and globally the industry has coalesced loosely around four gas-turbine technologies – a reflection of the high costs of staying in the combined cycle game.

The leaders in developing gas turbine technology are, naturally, at the centre of these groupings: GE, which has gained leverage in power generation from its aero-engine technology, and its mutually beneficial arrangement with GEC Alsthom; ABB; Siemens of Germany; and the Mitsubishi/Westinghouse partnership.

The two trends interlink because the strong growth of combined cycle has exacerbated the overcapacity at European plants producing equipment for large coal-fired stations and nuclear stations.

In the 1990s, however, a third trend is developing strongly from roots in co-operation agreements struck on a one-off basis but now taking a more central role in suppliers' regional strategies.

Mature Western markets, notwithstanding the importance for suppliers of combined cycle orders in countries such as the UK and Netherlands, are likely to grow only modestly, and attention is switching to the Far East – and especially south-east Asia – and eastern Europe.

Western suppliers with finely-tuned political antennae have realised that exploiting many of these markets increasingly involves co-operation agreements, joint ventures, or technology transfers to partners or to local subsidiaries. The requirement can be mutually beneficial for client country and supplier – the former gets an enhanced manufacturing base and jobs, while the latter can produce many large parts more economically when closer to the end-user.

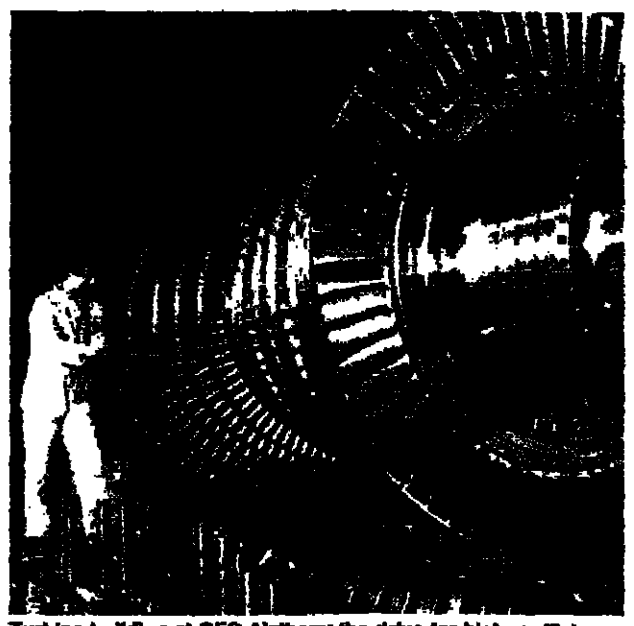
Some such links are long-standing, such as the agreement between Siemens and India's Bharat Heavy Electrical (BHEL), but there have been a spate of recent deals involving technology transfer and/or manufacturing under licensing. In January GE, a past master at extending a helping hand via partnership and associate relationships in around 60 countries, agreed to transfer heavy duty gas turbine technology to Korea Heavy Industries (KHIC), building on a 17-year association in steam turbines. ABB, Siemens, and GEC Alsthom have also announced tie-ups in south-east Asia, with Korean companies the most favoured partners.

In eastern Europe, another wave of takeovers and co-operation agreements has developed since the fall of the former communist regimes and the reunification of Europe. ABB and Siemens have been particularly active in eastern Germany with a string of electrical engineering acquisitions.

Acquisitions have also taken place further east, notably ABB's takeover of Zamech in Poland, and Siemens' purchase late last year of a 67 per cent stake in the power engineering business of Skoda Pilsen in Czechoslovakia.

Such deals are motivated as much by the western suppliers' wish for increased manufacturing flexibility, especially of low-value added equipment, as by the necessity of preparing the ground for winning business in markets with immense long-term power equipment needs.

Overall, therefore, the web of inter-relationships between power equipment suppliers is increasing in geographical scope and complexity. Whether


Turbine building at GEC Alsthom: the drive for higher efficiency

it continues extending, or begins to contract further at its centre, will depend on business trends.

Some in the industry question whether four separate gas turbine technologies can survive long-term. But there is no sign that any of the main protagonists are losing interest, and all remain committed to spending heavily to increase still further combined cycle's thermal efficiency and environmental friendliness.

Ultimately, the stability of the equipment supply industry's internal power structure will hang partly on the pace of orders in the Far East, eastern Europe and the former Soviet Union.

Another factor will be the market for plant specifically aimed at reducing emissions, such as flue gas desulphurisation for large coal-fired power stations. Here, suppliers rely on continuing popular and political pressure for tougher controls – in strict commercial terms, after all, there is no investment return from FGD.

However, there are also hundreds of power equipment companies that do not fall into the web woven around the multinationals.

Many of the small- and medium-sized companies exploiting niches in the developed world are benefiting from trends at the smaller end of power generation, such as combined heat and power (CHP).

One such company is California-based Exergy, which is pioneering the commercial use of a family of power system designs known as the Kalina cycle technology. The company is controlled by Dr Alexander Kalina, a former Russian scientist in the Soviet space programme who emigrated to the US in 1978.

Many such companies can retain their independence and still find the resources to develop internationally.

Eventually, though, others form long-term agreements with larger suppliers, which draw them partially into the web.

Ulster is no longer an electricity island, writes **Jim Flanagan**

Power line under the ocean

THE ink was barely dry on the documents transferring ownership of Northern Ireland's four power stations to the private sector when the province's annual round of electricity price increases was announced.

A 4 per cent average rise in line with inflation was hardly surprising but it handed detractors of privatisation a fresh platform for a bitter attack on Ulster energy policy.

It underlined the fact that the Government is in the process of privatising the power industry in spite of fierce opposition from consumer groups, unionist and nationalist politicians and trade unions fearing massive job cuts and higher tariffs.

Northern Ireland Electricity (NIE), an amalgamation of four small municipal authorities less than 20 years ago, ceased to exist as a public utility on April 1. Its power stations were taken over and all of NIE's obligations and employees moved to a new company, NIE plc. The new company, Ulster's biggest, continues to have responsibility for providing a reliable supply of electricity and controls the scheduling and despatch of all generating units. The new power station owners have to compete for the right to sell electricity to NIE.

It in turn has a statutory duty to operate the system in a manner facilitating competition in generation and supply. NIE Plc is due for flotation in November. In selling the power stations the over-riding concern of Ministers was to inject as much competition as possible.

Historically, NIE's main problems have been its dependence on costly fuel imports, isolation from national grids and its small size – peak winter demand throughout the province was a mere 1,447MW last year.

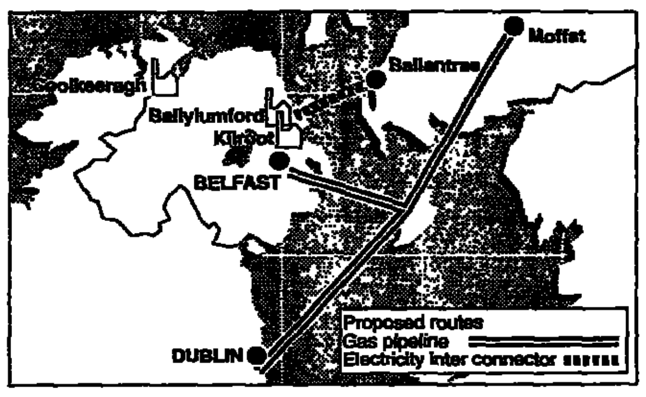
The utility's 70 per cent dependence on oil led to big Government subsidies in the early 1980s but modest profitability has been restored in recent years as fuel costs have stabilised.

It could be argued that privatisation has provided an answer to all the problems at a stroke and raised £353m for the Treasury's coffers.

British Gas has bought Ballylumford power station at Larne, County Antrim, for £132.4m. The 1,080 MW oil-fired plant meets the demand of almost half of NIE's 600,000 customers. The new owners will be converting the station to run on natural gas by 1997.

Premier Transco, a new British Gas subsidiary, will be building, owning and operating a pipeline to carry natural gas into Northern Ireland from Scotland. Ballylumford will be the first user but the pipeline will also service other suppliers wishing to bring gas to Ulster consumers.

Another subsidiary, Premier Energy Suppliers, is being established to market the product in Northern Ireland. Both the pipeline and power station conversion project have attracted European Community backing.



Terms have been agreed but British Gas has still to complete a detailed undersea survey and complete negotiations with Bord Gais Eireann in Dublin regarding the shared on-shore pipeline in Scotland.

Applied Energy Services and Tractebel, an American/Belgian consortium, have formed a joint venture, NIGEN, to acquire Kilroot power station near Carrickfergus and the Belfast West plant for a total of £214m.

However, the deal had not been finalised by the April 1 deadline. The Department of Economic Development has taken over responsibility for running the plants while NIE is providing a payroll system allowing wages to be paid.

NIGEN has made it clear that an agreement with the Government has been realised and the delay is due to "technical reasons". It said: "It is not because they can't raise the money. It is the process involved in project financing which has led to the hold-up".

NIGEN has £25m in place and is in the process of placing the remaining capital with a syndicate of international banks.

Kilroot, Ulster's most modern station, is a dual coal and oil firing plant with a capacity of 520MW satisfying about one third of the province's total demand. Belfast West, the province's oldest station, is a 240MW coal-fired plant covering about 10 per cent of demand.

Coolkeeragh power station at Londonderry, the only plant in the west of the province, has been acquired in a management-employee-buy-out for £6.5m. The 420MW oil-fired station also meets about 10 per cent of demand but is strategically important because of its geographical location.

The industry's competitive goals will be strengthened towards the end of the 1990s when an electricity inter-connector between Scotland and Ulster comes on stream. Scottish Power and NIE reached agreement on the £170m project before the power station sales. The cable will be capable of transmitting 250MW of power and provide another mainland link.

There is also renewed interest in restoring the inter-connector with the Republic of Ireland, out of commission since being repeatedly targeted by the IRA in the 1970s. NIE and the Republic's Electricity Supply Board have announced plans for a small power link providing back-up in the north-west of the country.

With the new power station owners likely to figure in any competition for future NIE generating requirements, it seems the industry is well placed to meet demand, currently growing at 4 per cent a year.

The whole scenario throws a question mark over the exploitation of lignite, the province's only indigenous source of fuel. It has been found in huge quantities and studies suggest a lignite-fired power plant would be viable. But given the environmental implication of such a project and the plans already announced for meeting future requirements, lignite is unlikely to be developed in the forseeable future.

The government has insisted that the privatisation is in the best interests of tax payers and energy users.

But consumers will judge the restructuring of the industry by the bills dropping through their letterboxes. Mr Geoffrey Horton, the new electricity regulator appointed by the Government to protect consumers rights after privatisation, is likely to be a busy man.

Chris Cragg takes the pulse of Japan's nuclear industry

Flickers of anxiety

ON THE face of it, nuclear power in Japan has a rosy future. With 42 units in operation, with a gross capacity of 33,404MW, the industry had an average capacity factor of 73.4 per cent in February.

By most standards, this capacity factor – a measure of output against the theoretical maximum availability – is excellent. Japanese reactors work well.

Equally, apart from the comparatively minor Mihama incident in February 1991, a primary coolant tube rupture in the steam generator, Japanese nuclear energy has been remarkably free of accidents and Japan relatively free of the knee-jerk antagonism to nuclear electricity that is familiar in Britain, Germany and the US.

Yet within the electricity industry as a whole, there is a creeping nervousness about the promise of nuclear.

On the surface all appears normal. Last month, the centrifuges of Japan's Nuclear Fuel Industries' (JNFI) uranium enrichment plant at Rokkashomura started to roll out the planned 150,000 separative work units (SWUs) a year of enriched uranium. The eventual target will be 1,500,000 SWUs a year.

Rokkashomura, after some initial local nervousness, will eventually become Japan's version of Sellafield, reprocessing spent fuel into re-usable uranium and plutonium ready for the fast breeder reactors Japan plans to build.

Nowhere else in the world is there quite the faith that the nuclear fuel cycle will be closed.

The mid-term MITI plan for the nation's electricity foresees 72,500MW of capacity by 2010. Yet it is this apparent vote of confidence that is making Japan's power utilities nervous.

It represents an expansion in capacity which would considerably more than double the units now in operation.

What bothers the industry is where these new units are going to go and just how long it will take to persuade the inhabitants of any new sites to accept them.

Furthermore, demanding that the nuclear construction industry should build two 1,000MW reactors per year for the next 20 years is a challenge only the Japanese would take seriously.

Japan does indeed have 10 reactors under construction, amounting to a combined total of 10,488MW, with the last on line in October 1996. Permission for two further plant, amounting to 2,181MW has also been given.

Nowhere in the world is there such faith that the nuclear fuel cycle will be closed

The problem is that planning authorisation for some of these plant dates back as far as 1982. As a recent MITI survey disclosed, the lead time for building a nuclear plant, including finding a site as well as construction time is now over 25 years. This lead time has been increasing steadily, from just over eight years in the 1970s to just over 17 years in the 1980s.

The nub of the problem is space. In contrast to German or US methods, the Japanese power corporations have, like the French, adopted a policy of financial persuasion in relation to the inhabitants of a potential nuclear site. Yet localities have become increasingly sophisticated and demanding in return.

While the power companies complain that the inhabitants fail to realise the real economic benefits to the neighbourhood in terms of local industry and jobs, the locality-minded Japanese often object to the export of the power from the area to supply the cities.

In Japan, where land is extremely expensive close to the largest power demand, this makes for huge difficulties.

Consequently, the current draft nuclear budget for fiscal 1992 from MITI has increased last year's allocation for power plant siting promotion by 10.6 per cent to Y48,000m ($341m) with a further Y16,205m going on special subsidies to those around future sites. At this rate, the state will be spending over $1bn every two years on nuclear plant siting.

The total MITI draft budget for the Nuclear Power Resources Siting Account, including safety and grants to develop local industrial complexes, now amounts to over Y80bn a year.

Even with this and offers of up to 50 per cent discounts for local consumers, it is still easier to build a plant on an established site, but there are limits even to this.

Tokyo Electric Power, for example, has hopes of a planned 1,356MW reactor at Kashiwazaki Kariwa on the north coast of Honshu Island. Yet if this goes ahead, it will be the seventh unit on the site, giving it an enormous 8,212MW of capacity. The twin sites of Fukushima host 9,096MW of capacity, although not in such a small area.

By contrast Tohoku Electric Power's proposed plan to build a reactor on a new site at Maki, again on the north coast of Honshu, has had an authorised plan since 1981 but commercial operation is not expected before 2000.

Many believe that the real need is for more gas-fired plants to follow the demand curve

With these kind of problems, even those within the Japanese nuclear industry are beginning to wonder if the MITI targets for 2010 are not too high. Yet Japanese power consumption, in comparison with both Europe and the US, continues to grow more rapidly than expectations. The problem is that peak demand is growing more rapidly than the average demand in most parts of the country.

Tokyo Electric, for example, had a peak demand of 27.3GW in 1980, compared with 44.7GW in 1990, while base-load grew by a much smaller percentage. Seasonal demand in Tokyo used to be only 29 per cent above base load in 1980. It is now expected to be 38 per cent above it in 1999.

Such increases in peak demand – apparently much increased by a craze for personal cleanliness amongst Japanese youth and hence greater use of hot water – do not sit easily with the rising capital and site-finding costs of nuclear capacity.

Nuclear remains primarily a base-load provider, when run at its most efficient. Consequently many now believe that the real need in the Japanese network is for more gas-fired stations that can follow the load curve.

As a result, some of the largest corporations in Japan met last December to discuss the idea of a Japanese trunkline gas grid, using Russian Sakhalin and Yakutsk gas. Significantly, among them were Tokyo Electric Power and Kansai Electric Power, the two largest power utilities.

Whether such a pipeline will come to fruition remains impossible to say. Nonetheless, there are plenty of trends to indicate greater use of gas-fired generation in Japan.

Cogeneration, although still trivial in relation to grid supply, has doubled to 1.9GW since 1989.

More gas companies are switching from LPG and town-gas to imported natural gas, thus developing the potential for household use. Perhaps most significantly of all, Tokyo Electric Power is planning to build the world's largest gas-fired combined cycle station at Yokohama, close to its area of peak demand. At 2,800MW, this could be running in 1996, five years after the proposal.

Needless to say, this does not suggest that Japan's nuclear expansion is over. Certainly nobody would admit as much officially. Nonetheless, it may be slowing down.

The writer is editor of Energy Economist, *a FTBI energy newsletter*

Andrew Holmes on the power stations that Communism built

Nuclear hazards intensify

THE recent incident at the Sosnovy Bor nuclear power station near St Petersburg has given rise to fears of another nuclear accident on the scale of Chernobyl.

While the Sosnovy incident – a leak of radioactive gas on March 24 – bore no relation to the Chernobyl disaster, it took place in the same reactor type, the RBMK, and occurred only months after a fire at the Chernobyl 2 unit.

Another RBMK, Ignalina in Lithuania, has been the subject of safety reviews by Swedish nuclear experts and, by all accounts, is in an alarming condition.

Aside from the technical fallibility of these stations, reports from Norwegian nuclear inspectors who have visited the Chernobyl and Ignalina plants suggest that corruption has become endemic in equipment ordering and in payment for repairs which are never actually carried out.

As one of the Norwegians put it in a recent interview with the environmentalist newsletter, *NNVF Bulletin*, "in a country with an economic system where keeping accounts and auditing are unknown, fraud is an easy business". The command and control system in the USSR nuclear industry, which was never very effective at the best of times, has now gone altogether, leaving a dangerous vacuum in the oversight of nuclear operations.

The RBMKs, and the whole nuclear sector, represent only one aspect of the problems besetting the electricity industries of the former Comecon countries.

It is nuclear power, however, which is causing the greatest alarm, not just in the west, but in former parts of the USSR. Estonia was among the first countries to demand a shutdown at Sosnovy Bor.

Nuclear power also poses most urgently the question which faces much of the decrepit and highly-pollutant plants in eastern Europe: should technical help from the West aim to refurbish the plants, or get rid of them?

Apart from the RBMKs, the nuclear plants which cause most trepidation in neighbouring countries are the four pressurised water reactors at Kozloduy in Bulgaria. The various western inspection teams which have visited the site have reported a station which is badly maintained, run by an under-trained and low-paid staff and in need of basic repairs at every level.

A reactor in a similar condition, Greifswald in east Germany, was shut down soon after German unification. Unlike east Germany, however, neither Bulgaria nor any of the former regions of the Soviet Union which house RBMKs can fall back into the arms of a rich western nation like West Germany.

Corruption is rife and payment is made for repairs which are never carried out

Kozloduy exemplifies the key problem in the "patch up or close down" dilemma. Nuclear power provides more than a third of Bulgaria's electricity. The country's hydro supply is limited and irregular at best, while its only domestic fossil fuel sources are low-quality coal and highly-pollutant lignite. The Ukraine, which houses 12 PWR units as well as the three surviving units at Chernobyl, is in much the same condition.

The initial instincts of the numerous western companies which flocked into eastern Europe when the Iron Curtain fell were to bring the stations up to something approaching western safety standards. Experience has shown that stations designed and built to such a low level of safety requirements are in many cases beyond redemption. In any event, public pressure from the Scandinavian countries, Germany and Austria is pulling governments and aid agencies away from such solutions.

However, new power stations cost money. In the case of nuclear power, there is also a large price to be paid in getting rid of the stations and the enormous volume of waste which they leave behind in the form of irradiated steel and concrete structures.

Outside the nuclear sector, there are other horrors such as the Polish lignite-burning power stations which have turned parts of the country into a poisonous wasteland.

A government survey in 1988 designated 27 areas as "ecologically hazardous". These areas cover 11 per cent of the Polish land mass and house over one third of the population. Power stations are only part of the problem, but they are a large part. All but a tiny fraction of the nation's electricity comes from coal of one type or another. The country's venture into the nuclear sector proved short-lived and Poland has few if any other resources which can be used in the short term.

Not all eastern European countries face problems on this scale. Hungary, for example, is making swift progress, though even here, according to a recent report by the International Energy Agency, the break-up of the centralised Comecon nuclear structure, in which the USSR provided treated fuel and took away waste for disposal, has presented the country's nuclear station, Paks, with a new set of problems. These are tending to offset the good performance, in technical terms, of the station itself.

Command and control systems, never very effective, have now gone altogether

Hungary is also suffering, like many former Comecon countries, from a lower availability of Soviet electricity imports. The IEA sees positive signs that an energy economy such as Hungary's can, with a cautious approach to privatisation of basic industries, begin to get its energy market working on something approaching western lines.

The dilemma which faces all these countries, however, is the most basic of all, the pricing of energy supplies. In Russia, the "liberalisation" of energy pricing, involving an eight to ten-fold rise in consumer prices, due to have taken place at the end of this winter, has now been delayed until the end of the "spring sowing season", in May or early June.

Further delays are possible, not to say probable, as the opposition to market-based pricing grows. Liberalisation of pricing is a precondition imposed by the International Monetary Fund on loans to Russia and the rest of the CIS countries, but few if any will go ahead with price liberalisation if Russia stalls.

It is, perhaps, difficult for westerners to appreciate the trauma which lies ahead for every sector of the population in the ex-USSR and other countries in the region, who have been taught to regard electricity as a basic amenity, like bread and water.

It is here, at the most basic level, that the opportunity for change, in the short term, must lie. The introduction of basic metering of electricity, and the removal of incentives to waste it, could mark the way forward to the beginnings of a more rational use of the vast resources of Russia and other republics. Time, however, is pressing.

The eastern European countries do not have sufficient time to introduce gradually the metering and payment systems which might ease the way towards a more efficient use of energy sources.

Pressures from the IMF, among others, to raise revenue from energy tariffs, along with even more misguided pressure to disaggregate and privatise the electricity industry, threaten to make an orderly transition to energy markets – as opposed to allocation systems – impossible.

In the meantime, western nations, and in particular the near neighbours of the former USSR, need to find a way through the nuclear power problem. It is already clear that neither privatisation nor the disaggregation of monopolies will do much to improve these potentially lethal machines and end the mismanagement which now makes them doubly dangerous.

The writer is editor of the FTBI newsletter Power in Europe

Malaysia spearheads sell-offs in Asia, writes Frank Gray

All eyes on Kuala Lumpur

BY the end of this month the first stage in the privatisation of Malaysia's state electricity board will be completed when 23 per cent of the company's shares begin trading on the Kuala Lumpur stock exchange.

The minority flotation of the state-owned utility, Tenaga Nasional Berhad (TNB), is the biggest yet in Asia's developing countries, where most of the region's utilities are under state control.

Malaysia's experiment in privatisation is being closely watched in view of widespread moves in the region to make the power sector operate more commercially. The TNB flotation involves the allocation of 625m of its 3bn shares to the private sector, with most of the shares going to domestic institutions, the public at large and to employees and a further 60m allocated to international investors.

Baring Brothers, the UK merchant bank, lead managed the international offering. The offering was heavily oversubscribed and "grey market" indications are that official share trading will see TNB shares hitting the market well above their offer price of M$4.50 per share.

The TNB flotation dates from the late 1980s when the Malaysian government began soliciting advice on how to privatise the utility, then known as the National Electricity Board (NEB). At that time, Mr Samy Vellu, the energy minister, hoped to float a majority of the shares, leaving the government as a minority shareholder, but retaining overall sovereignty for the utility through control of a so-called "golden share".

That plan was abandoned given the complexity of trying to ensure a fair distribution of the shares among Malaysian institutions and the ethnic Malay, as opposed to the Chinese, public. It has been a cornerstone of Malaysian domestic policy since 1969 to broaden the Malay share of national corporate wealth to match the more commercially successful ethnic Chinese population.

Malays comprise 58 per cent of the population of 18m, the Chinese and Indians comprising 33 per cent and 9 per cent respectively. Critics of the privatisation scheme argued that the TNB was almost too good to put on the marketplace.

Malaysia is technically self-sufficient in energy with large gas and oil reserves and abundant hydroelectric potential. It now delivers piped gas to Singapore and is at the crossroads of a partially completed trans-ASEAN (Association of Southeast Nations) gas pipeline grid, extending from Thailand to Indonesia.

With an installed capacity of 5,000 MW, Malaysia is not burdened by the population demands of Indonesia (180m, 9,000 MW) and its 1:3.5 ratio of kilowatts per head of population far exceeds the Asian average of 1:10 (the European average is roughly 1.5:1).

The government has argued that injections of private capital were needed to improve the TNB's efficiency and meet the demands of new industry. It has set an ambitious target of adding a further 3,000 MW of new capacity to reach 7,834 MW by 1995, largely through the addition of hydroelectric and combined cycle power stations to the national grid.

Mr Vellu recently declared that Malaysia wanted "to become Asia's powerhouse". The TNB's restructuring required it to be removed from governmental control. This necessitated its corporatisation, which took place in September 1990. After that, it was up to national and foreign bankers to put together an action plan that could be sold to the public.

As well as an impressive boost in generating capacity, the TNB is predicting a sharp increase in profits. Last year, its turnover was M$3.7bn, with after-tax profits of M$501m. It foresees an after-tax profit rise to M$820m this year and M$969m in 1993.

With electricity tariffs forecast to remain stable, this could mean a sell-off of some of the utility's assets, particularly thermal power stations which would be run by private operators. It is already in talks with Hopewell Holdings of Hong Kong to build a M$4.6bn ($1.7bn) thermal power station on a build-operate-transfer basis. Hopewell would run the station for a specified number of years, recouping its installation costs from the sale of electricity into the TNB grid.

To the alarm of some, TNB's long-range programme includes a closer examination of nuclear. When the flotation was first mooted, Mr. Vellu, commenting on the problems facing Britain's electricity privatisation, said: "Thank goodness, we do not have nuclear." Analysts suggest that this position really has not changed and that nuclear was put into the current flotation prospectus as a demonstration of the utility's technological prowess, rather than as an indicator of true, long-term intent.

With the minority flotation just being completed, there are no immediate plans to float any more shares, though the TNB – with the government holding a golden share – may decide to do so later in the decade. The possibility that shareholders might have to fund a showpiece (and probably unnecessary) nuclear power station might provide a big disincentive to a further devolution of the utility.

The writer is editor of Power in Asia, *a FTBI newsletter.*

UK utilities face energy efficiency dilemma

When profit comes before policy

A FEW years ago, Walt Patterson and his wife halved their electricity bill by replacing all their lights with low energy lamps. "It was a pretty sizeable investment – *about* £10-£12 per light. But after two to three years we have already recovered that," he says.

Few householders are as enlightened as Mr Patterson, an energy specialist who was *one of the first* to preach the environmental gospel. But if only more of us would replace our lamps, the savings in national energy consumption would be "*spectacular*", says Mr Patterson.

"If people caught on how much they could save, just for lighting, the regional electricity companies would be very worried. Their sales would drop like a stone."

There, he says, is the rub. *The regional electricity companies* which supply domestic customers are not promoting energy efficiency products because their profits depend primarily on selling more electricity, not helping customers to save it.

Brenda Boardman, at Oxford University's Environmental Change Unit, agrees. "At the moment, the regulation governing the regional electricity companies is structured around them being utilities, and being on a growth curve *by selling* more units," *she* says.

"I want them to become energy service companies, selling warmth and lighting rather *than units of electricity*," *she* says. This would mean the companies would consider insulating homes and installing low energy lighting as

Spectacular savings could be made if enough people switched to low energy lamps

alternatives to supplying more power.

There is, she says, enormous scope for saving. "Say your fridge uses 100 units of energy. The average new fridge will *use 90, a saving of around 10* per cent. If you are well informed, and buy the best fridge on the UK market you will be down to 43. And if you buy the best fridge anywhere on the world market, you will *be down to 19 – a saving of 80* per cent."

The super-efficient fridge, moreover, will not necessarily be more expensive. There is no correlation between the capital cost of a fridge, and its efficiency.

What Ms Boardman, Mr Patterson and many others advocate is "least cost planning," also called "demand side management". Briefly, this means meeting the country's energy needs *by energy conservation* measures whenever that is cheaper than building new power stations.

At the moment, there is very little demand side management in Britain. The legislation brought in when the *electricity* industry was privatised two years ago, has no provision for demand side management, except that the regional electricity *companies* must promote energy efficiency.

"That means *leaflets*, which is a minor point," says Ms Boardman. "Most just give general advice like 'insulation is good,' whereas what's often *needed is household specific* advice and money."

And, she points out, the government has been unclear about its *objectives*, failing to distinguish clearly whether it wants to reduce demand, promote energy efficiency, (getting more from each unit of energy), or *simply* cut the carbon dioxide emissions which result from burning fossil fuels and cause global warming by any possible means.

Privatisation, she suggests, may have made demand side planning *a less easy option*, because when the government controlled the industry it could decide whether to opt for supplying more power, or managing demand.

"Before, the government could, *for instance*, have considered giving £1bn to the Department of the Environment to spend on insulation, rather than building new power *stations. Now, industry* has to be able to compare those options."

One of the strongest arguments why demand side management will not work *in* the UK electricity industry now is that it is not "vertically integrated". Privatisation split the electricity generators – who build most power stations and are the primary suppliers of power – from the regional electricity companies – who sell it to meet customers' demand.

This means there is no longer one integrated company which can compare a "supply side" option, like building a new power station, with a "demand side" option, like insulating more homes.

Offer, the electricity industry watchdog, made this point in a brief examination of least cost planning in an energy efficiency *review produced* last year.

The best fridges use less than half the energy needed for the average appliances

This argues that what the regional electricity companies do will not affect the generators' decision to build or not to build new plant, and that the regional companies would have *to recoup the cost of investing* in demand-management programmes by putting up their prices.

"The question in the UK is, what is the incentive for regional electricity companies *to promote energy savings?*" says Mr Tony Boreman, at Offer. *At* the moment, there are two main reasons why the companies actually have a disincentive to promote energy saving.

First, if they invest in installing low energy lights in domestic *homes*, for example, they cannot pass the cost on to customers. By contrast, they can charge customers for the cost of buying more power.

Second, the companies have a relatively stable cost base, which means that more unit sales mean more profits. This means that even if they could recover the costs of putting the lighting in, they would lose out *because the new lights* would consume fewer units of electricity.

This has not completely deterred regional companies from investing in energy efficiency – competition from gas has encouraged them to use energy efficiency as a marketing tool, especially when it comes to selling industry electrical solutions to problems.

"It is in the interest of the industry to keep customers away from gas," says Mr Simon Roberts, energy campaigner for Friends of the Earth. "But in the small business and domestic market there is no incentive to save energy. It is not happening in existing homes." What is needed, he says, is real incentives, and penalties for companies that do not encourage demand management.

Mr Tim *Wolfe, at the Association* for the Conservation of Energy (ACE), believes a system could be introduced in the UK. "There has been lots of opposition from the Conservative party in the UK, saying it *is not appropriate because our* industry is not vertically integrated. I don't believe that matters."

Others agree. Firstly, the regional *companies do* have some avoidable supply-side

There is a need for real penalties for companies that do not back demand management

costs – such as spending on sub-stations or upgrading their local networks – which they *can offset against managing* demand. Second, points out Mr Wolfe, they can be given an *incentive to invest in demand* management.

So far, Offer has suggested the possibility of introducing an "E factor," as the gas industry did last year. This "E factor" would be added to the regulatory *formulas that govern* how much the regional electricity companies can increase electricity prices to customers. It would allow the cost of approved energy saving programmes to be reflected in the electricity price.

But this, Mr Wolfe believes, is not enough. "Say a programme costs £5m, and saves the company £7m in the cost of buying more power – they have already made £2m. But *they might* have lost £2.5m in revenues from the power they would have *sold*. We *believe* they should be allowed to recover that £2.5m. Not the £5m the programme cost – just the £2.5m."

An E factor *which allows* the companies to recoup the costs of energy saving programmes would encourage them to spend on programmes, but not save energy, he says. *But* an E factor which allowed them to recoup lost revenues would *encourage* them to spend less on the programme, and save units. "This is a *fundamental* issue, and one I don't believe Offer will meet head on."

Brenda Boardman agrees. "At the moment there is a double disincentive – no pass through of costs, and no profit except by selling more units."

"There should also be a greater emphasis on planning," suggests *Mr Wolfe. "Offer* could require the regional companies to put forward energy plans every two years, or could set the companies targets."

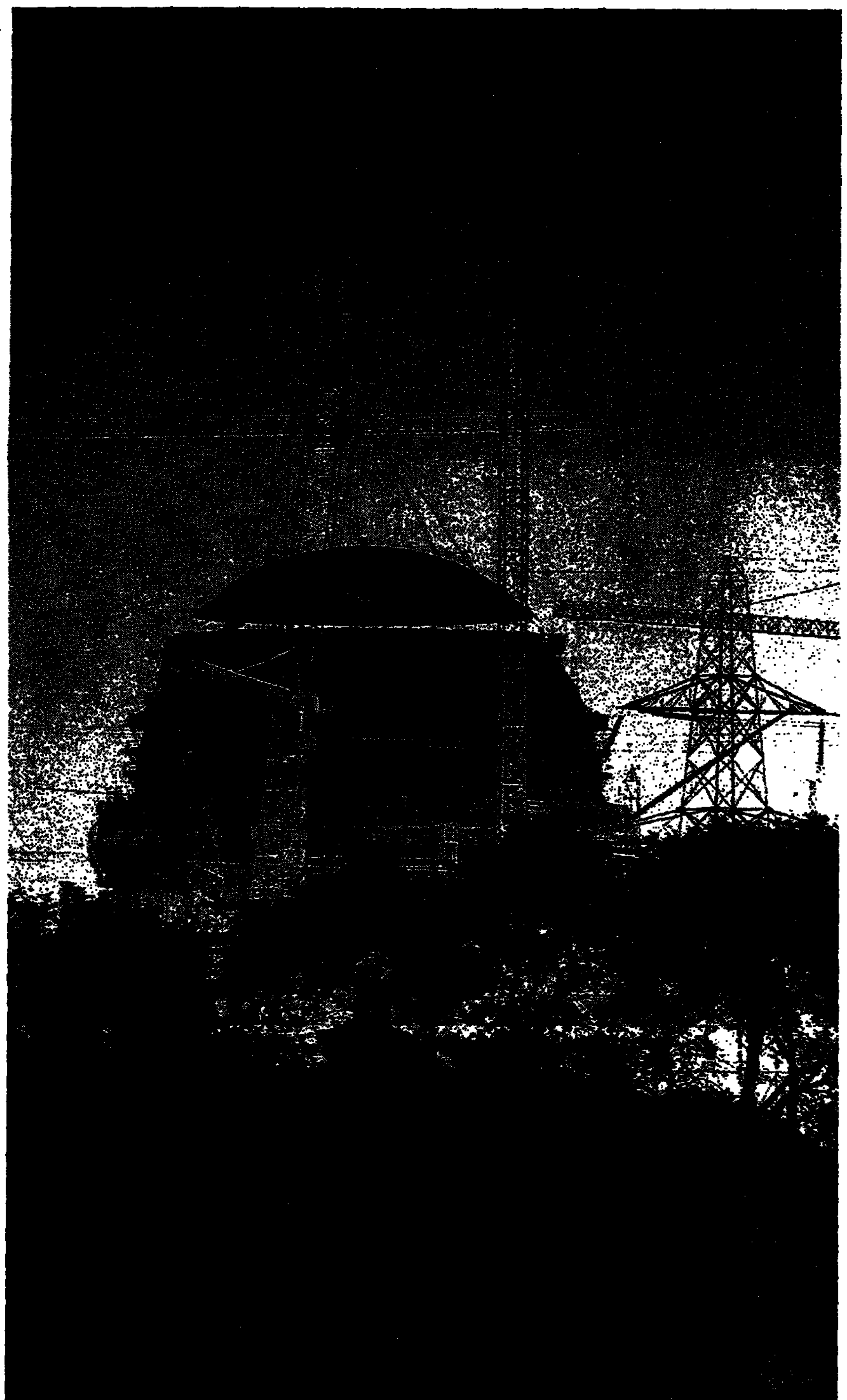
Most important, say all advocates of least cost planning, is to *change* the regulation governing the regional electricity companies, so that their profits are not directly linked to higher sales.

"If their costs were unit-sensitive, but not their profits, then instead of advertising at you to buy things, they would be discouraging you, because it would cost them more," says one commentator.

Offer has asked for comments on its energy efficiency *document* before June, and may then move to implement some *form of E factor*. It is unlikely, however, that it will be enough to get the regional companies installing low energy lights and fridges.

Juliet Sychrava

National Power's 4,000MW coal-fired power station at Drax, North Yorkshire: supplying huge volumes of energy to a profligate market place



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EASTERN ELECTRICITY

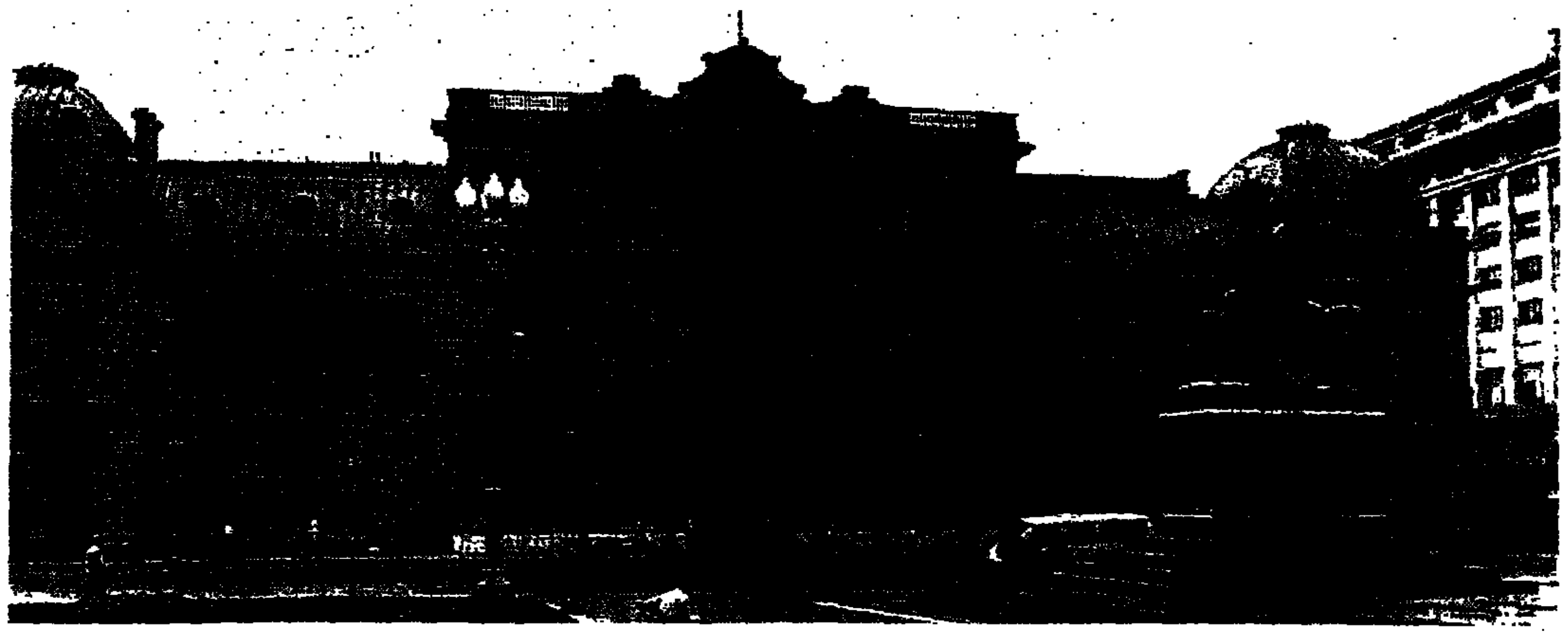
ARGENTINA

■ Inflation tamed: virtuous circle rewarded with public support Page 2

■ What to do in Buenos Aires: city that comes alive at night Page 6

Economic reforms are beginning to bear fruit, after the impetus given by Carlos Menem, the head of state since 1989. Monthly inflation is now in single figures. The president has the chance to reverse the economic decline of the past 60 years, says **Stephen Fidler**

Best chance in years



The Casa Rosada – the office of the Argentine president – in Buenos Aires

Photographs Glyn Genin
Editorial production Gabriel Bouman

ARGENTINA'S reputation as an economic disaster zone has received a serious blow over the past year.

The country has just enjoyed a year of slow inflation and high growth, with every prospect for another year or two of the same. Argentina may be on the road to a fundamental economic recovery.

If it is, it will be thanks to two men: President Carlos Menem and his economy minister, Mr Domingo Cavallo.

They have opened Argentina's economy up to market forces, international and domestic, and curbed its disastrously inefficient government.

The resultant stability has been popular: it is credited with winning Mr Menem a vote of confidence in last year's mid-term elections. It has also reversed a decade of capital outflows from Argentina, triggering an influx of money. This has doubled the government's hard currency reserves in a year to \$8.3bn at the end of March.

It has won the support of the International Monetary Fund for an \$3bn extended fund facility, given only to countries that have a "track record". This has brought agreement in principle with foreign bank creditors which will lower the burden of Argentina's \$62bn foreign debt.

Mr Menem is an unlikely free market crusader: a Peronist from the provinces whose lifestyle and friends many Argentines find unsavoury. But he knows what he wants and how to get it; and what he wants now is an Argentina freed from the shackles of over-regulation, state control and protectionism.

Mr Cavallo is a Harvard-trained economist who provides the intellectual firepower for reform and who has put the economic programme back on track since he took over in January last year.

The change in the economic outlook has also brought a more outward-looking foreign policy. Argentina has aligned itself more closely to the west and announced its intention to comply with a raft of international agreements it previously refused to sign.

It has sought better relations and closer economic integration with its neighbours. It is committed to the creation of a tariff-free common market, which would group Argentina with Brazil, Uruguay and Paraguay.

Economic stability had eluded the previous government of President Raúl Alfonsín who was forced by economic crisis to relinquish power to Mr Menem five months early in July 1989. The economy was in hyperinflation, and food riots and lootings had prompted the implementation of a state of siege.

Mr Alfonsín had taken office in December 1983 from a military government disgraced by seven years of political repression and economic mismanagement. Its final humiliation had been the military defeat by British troops on June 14, 1982, following the Argentine invasion of the Falkland Islands.

During his time in office, Mr Alfonsín and his radical party had succeeded in further weakening the influence of the military in government. He also (rare enough in Argentine history) managed to hand over power to another elected president.

But lack of success in handling the economy overshadowed his presidency. Two economic "shock" programmes – the first and second Austral plans of 1985 and 1987 – failed to stabilise the economy.

A mixture of wage and price controls and devaluations, the plans failed to address the central cause of Argentine economic instability: an out-of-control budget and a central bank with little monetary discipline.

Mr Menem dismisses the Austral plans as "announcements, nothing more". Indeed, his administration can claim to have tackled the root of many of Argentina's economic troubles by curbing the budget deficit and securing a law forbidding the central bank to print money unless backed by foreign currency.

An aggressive privatisation campaign is helping to keep the deficit in check. Under it, companies accounting for no less than 30 per cent of the Argentine economy will be transferred rapidly from the state to the private sector.

The government has fixed the Argentine currency to the dollar and pledged to keep it there, despite complaints that it is hurting business. Mr Cavallo is convinced that Argentines are so inured to inflation that the competitive benefits of a devaluation would be offset by price rises in a matter of weeks.

With a lowering of tariff barriers and a removal of much of the regulation that has hobbled the private sector, Mr Cavallo reckons the government is removing the causes of the severe malfunctioning of the Argentine economy. There will be no going back, he says, to the system of multiple exchange rates, industrial promotion, over-regulation and state lending that fostered enormous corruption. Argentines are not lazier or more corruptible than other people, he says: they respond to incentives like everyone else. "Under the old system, there was an enormous incentive to corruption and the result was huge corruption. That has now gone."

The reform programme should indeed reduce the opportunity for corruption in Argentina, but it will take time to erase it from the system. As one former central bank governor says: "There are still thousands of subterranean contacts between the government and the private sector which can lead to corruption." The head of one US company told the FT that a project his company had won to build a new port in Argentina was being held up by his refusal to pay a bribe.

Indeed, one of the important consequences of economic stability is that it removes the distorting prism of rampant inflation. This allows a clearer vision of the challenges that will have to be faced for Mr Menem to achieve his much-vaunted desire to bring his country back into the first world.

The picture is far from negative. Argentines are more literate and their wealth is distributed far more evenly than in most other Latin American societies. Its traditional natural resources, such as its abundant, fertile land, remain.

However, the vital questions are whether the private sector can respond in its new role as the engine of growth; and whether the public sector can be effective as provider of public goods, such as health, education, security, and as a reliable arbiter of justice. The two issues are interlinked: private investment, for example, will be discouraged by a corrupt justice system.

There is selective evidence of the private sector responding to the cold wind of foreign competition, but it is too soon to say in what sectors, apart from food production, the country can carry comparative advantage.

Similarly, the ability of the state to provide public goods has deteriorated. Turning this round will be critical: the Argentine people will not be satisfied for ever with stability. If they are lucky enough to obtain a few unbroken years of low-inflationary growth, they will start to demand that the state performs effectively its reduced role, particularly in the provision of education and health services.

The next 12 to 18 months are widely viewed as critical to further and consolidate the economic programme. Reform is needed, for example, of labour and social security legislation. In this period, it is quite likely that the exchange rate regime will have to change and this will need to be done carefully to avoid fracturing confidence.

The continuation in office of Mr Cavallo is also viewed inside and outside Argentina as critical to the maintenance of confidence. While elements of the economic reform will remain with or without Mr Cavallo, it is difficult to identify anyone who would do the job better, observers say, and there are legions who would do it worse.

In this sense, the reform programme may still be said to be fragile and unhealthily dependent on a few enlightened members of the government.

One fear is that Mr Menem's commitment to economic reform is that of a populist, albeit an astute one, rather than that of a "conviction" politician. His response in the event that he becomes unpopular is thus unknown.

There are also concerns about his apparent desire to run for office again, which is forbidden under the current constitution. Mr Menem says he has not yet made up his mind on the issue. There may be a risk that he will trade away part of his economic programme to secure support for constitutional change. And the other changes which would have to be made to give the project an air of respectability could lumber the country with an unworkable constitution such as that which is now hindering Brazil's reform efforts.

Mr Menem has given Argentina its best chance in years to reverse the economic decline of the past 60 years. Further increasing those chances would seem a more important priority for his country than a personal project to rule Argentina almost to the next century.

The trading floor of the Buenos Aires stock exchange

Stephen Fidler looks at how inflation has been tamed

Virtuous circle rewarded with public support

WHEN President Carlos Menem assumed office, Argentina was in a frenzy of hyperinflation.

In that month, July 1989, retail prices rose nearly 200 per cent. At this level, commerce grinds to a halt. Simple transactions become impossible because people have no idea at what price they will be able to replace what they have sold.

Hyperinflation threatened again in early 1990. Since then, the inflation trend has been dramatically down. Last year, prices rose 84 per cent, compared with over 1,300 per cent in 1990 and almost 5,000 per cent the year before. This year, inflation will probably be significantly below 20 per cent.

For this brief insight into relative economic stability, the Argentine people have been grateful. As voters, they have responded with support for those who back the government's economic programme. As savers, they have begun to bring back capital: they accounted for much of the estimated $5bn that flowed into Argentina in 1991. As consumers, they have started to spend, encouraged by the emergence of what for Argentines is an unusual service: consumer credit.

As a result, while some sectors have suffered, there is no sense of overall economic austerity. Gross domestic product rose some 5-6 per cent last year, with employment rising 3 per cent and industrial production up 20 per cent. This year growth could be higher: perhaps 7-8 per cent, according to Mr Domingo Cavallo, the economy minister.

The economy appears to have entered a virtuous cycle. This dates back almost entirely to a law, the brainchild of Mr Cavallo who took office in January 1991, that went into effect on the inauspicious date of April Fool's Day last year. The convertibility law turned the central bank into a currency board. It fixed the Argentine currency to the US dollar and only allows the central bank to issue local currency when backed by inflows of dollars to the central bank. (The dollar was set at 10,000 australs. This January, the government renamed its currency the peso and made one peso the equivalent of US$1.)

This law halted the Argentine inflation machine - by which the central bank printed money to cover a budget deficit estimated to have reached 14 per cent of GDP at its worst in mid-1989.

It also made it imperative that the budget deficit was kept in check. The government has managed to do this by raising tax revenues, mainly through the imposition of an effective value added tax, and abolishing subsidies to public sector enterprises. The government shrank its overall budget deficit, including privatisation receipts, to 0.6 per cent of GDP last year, and a small surplus is promised for the next two years.

A central part of the programme has been the privatisation of the loss-making public enterprises. This was envisaged in a state reform act which passed into law in 1989 and predated Mr Cavallo.

The Menem administration also moved quickly to bring down tariffs and abolish almost all quotas on imports, turning Argentina very rapidly from one of the most protected economies on earth to one of the most open. Late last year, the reforms were supplemented by decrees abolishing large swathes of the regulation which has hobbled private enterprise.

However, 60 years of state controls have produced a perverse economic system that will take more than a year to dismantle. Mr Cavallo, most of whose team came with him from the economic research group he founded, Fundacion Mediterranea, admits that there is still much to do.

According to Mr Juan Llach, planning secretary in the economy ministry, the following are among the priorities:

■ Completing Argentina's dramatic privatisation programme (see separate article), which will remove $700m annually or 1/2 percentage point of GDP from the budget deficit.

■ Concluding Argentina's deal with foreign bank creditors. The government's aim is to complete the exchange of concessional bonds for loans by November or December this year. While the Brady agreement has been criticised internally for being too generous to the banks - interest payments to commercial banks will roughly double to about $130m monthly - the country will stop building up interest arrears to the banks. The deal is likely to improve the country's access to foreign capital markets.

■ Winning congressional approval for reform of the social security system, an important contributor to the fiscal deficit. The aim will be to move towards a mixed system, allowing the creation of private pension funds It would also put the state sector on a sounder financial footing.

Argentina has a higher proportion of old people than any Latin American country apart from Uruguay: its monthly state pension bill is 7 per cent of GDP, compared with 1 per cent in Mexico

Argentina has a higher proportion of old people than other Latin American countries (apart from Uruguay): as a result its state pension bill has been high. Argentina's monthly pension bill is about $800m, 7 per cent of GDP, compared with the 1 per cent spent by Mexico.

While Argentina's pension system is in balance on a cash basis, old people do not get the pensions they are promised by the state. This builds up every month a notional deficit with pensioners. The ministry wants to lower the entitlement, perhaps to $150 a month, but to make sure everybody gets this amount.

The private pensions, to which everyone under 45 would pay 10 per cent of salary, are also seen as playing an important role in the development of the capital markets, as they have in Chile.

■ Reforming the labour laws. These help contribute to high labour costs in Argentina. Reform has several facets, one of the most important of which is the law on social medicine. This obliges trade unions to provide medical treatment for members. While the system gives access to medical coverage to a large sector of the population, it is seen as costly and inefficient.

The idea is for the state to provide a basic health service, but allow people to opt for private medical care, which the unions could compete to provide. The ministry is also seeking to tackle the laws of collective bargaining to allow for a much more decentralised system of wage bargaining. Further tax reform would reduce taxes on labour, which increase labour costs by up to 50 per cent.

■ More changes in the regulatory system. The government will seek further deregulation, for example, by inducing Argentina's 24 provinces to deregulate in areas where they have jurisdiction such as in the setting of professional fees. In other areas, where natural monopolies are being privatised, the state will seek to establish effective regulatory regimes.

The efforts by the ministry to establish an overall budget for the government, divided into ministries is also important. In January, Mr cavallo delivered to Congress and secured passage of the first budget since 1953.

For some time to come, if the government manages to preserve relatively low inflation, Mr Cavallo's programme should retain his popularity. However, low inflation will not secure eternal gratitude from Argentine voters. There will probably emerge in time dissatisfaction about the ability of the state to provide the social goods such as health and education which fall into its much reduced remit.

In the longer term, growth is the key to Argentina's remaining in the virtuous economic circle. Given the financial straitjacket that Mr Cavallo is constructing around the public sector, the key to the long-term success of the programme has to be private sector investment. This is why Mr Cavallo has placed a high priority on normalising relations with foreign creditors and why he wants to abolish the rules that inflate Argentine labour costs.

Private investment will depend on the world being convinced that Argentina is a place where investment can be made under fixed and transparent rules: something which cannot be said yet to have been achieved, in part because of a lack of trust in the judicial system.

Such investment is also sensitive to economic confidence which can be upset. For the moment, the fixed exchange rate regime has given Argentines confidence to bring their money home. But a clumsy adjustment of that regime could damage confidence badly. It seems almost certain - despite average monthly consumer price inflation of around 2 per cent in the first four months of the year - that Mr Cavallo can maintain the fixed rate for 1992.

The picture varies, but many manufacturers say that the combination of tariff reductions and the relatively strong peso has left the cost of imports little changed. The government emphasises too that wholesale price rises are running at much lower levels than retail inflation - an average 0.6 per cent monthly in the first quarter.

However, if rises in retail prices lead to upward pressure on wages, then the competitive position of Argentine exporters will be damaged. This will in turn increase the pressure for a devaluation of the exchange rate. The government in the meantime is hoping that deregulation can shake up the services and oligopolistic retail sector, to put downward pressure on retail prices. Meanwhile, the inflows of capital represent a two-edged sword in the inflation fight: they make it easier to continue the exchange rate regime but also cause an expansion in the money supply which puts upward pressure on prices.

Most damaging to confidence in the short term would probably be the disappearance from office of Mr Cavallo. He and President Menem are widely reported to have differences, but know they need each other. The economy minister denies suggestions he has ever threatened to resign, and says that any fears that he and the president would part company in a damaging way "underestimates me and underestimates President Menem."

Mr Cavallo is widely considered to need another 18 months to complete his programme. Another worry is that Mr Menem's assumed wish to stay on another term (impossible under the present constitution) may involve him and the Congress in unnecessary horse trading. The fear is twofold: that the president may bargain away certain parts of the economic programme to secure support for his reelection and that the constitutional changes might saddle the government with unnecessary restrictions on its freedom of manoeuvre.

KEY FACTS

Area	2,737,000 sq km
Population	32.7 million (1991 estimate)
Head of State	President Carlos Menem
Currency	The peso (Ps), which replaced the Austral on 1/1/91. (Ps1 = A10,000)
Average Exchange Rate	1990 $1 = Ps0.4876
	1991 $1 = Ps0.953
	May 1 1992 $1 = Ps0.9868

ECONOMY	1990	1991
Total GDP ($bn)	78.1	n.a.
Real GDP growth (%)	-0.7	4.5
GDP per capita ($)	2,418	n.a.
Components of GDP (%)		
Private Consumption	80.5	
Total Investment	8.9	
Government Consumption	3.9	n.a.
Exports	14.4	
Imports	-7.8	
Agriculture as % of GDP	11.8	n.a.
Consumer prices (% change pa)	2,315	230
Reserves minus gold ($bn,Dec)	4.6	4.3
M1 growth (% pa, end year)	1,096	277[1]
Discount rate (% pa, end year)	1,586	60
Total external debt ($bn)	60.9	61.9
Debt service ratio (%)	34.1	n.a.
Current Account Balance ($bn)	1.7	-2.8
Exports ($bn)	12.3	12.3
Imports ($bn)	3.7	8.1
Trade Balance ($bn)	8.6	4.2
Main Trading Partners (1990, % by value)	Exports	Imports
US	13.8	21.7
Brazil	11.5	16.7
Germany	5.2	10.1
Development indicators	15-20 years ago	latest estimate
Dependency ratio[2]	36.8	38.9
Urban population (% of total)	80.6	85.9
Pop. growth rate (annual %)	1.7	1.2
Infant mortality rate (per thousand live births)	44.2	30.4
Life expectancy (years)	68.1	70.9

Notes: [1] = Q2 figure.
[2] = % of population under 15 or over 65.
Sources: IMF, World Bank, Economist Intelligence Unit.

Stephen Fidler on the impact of a period of political change

Power shifts to outsider

PRESIDENT Carlos Menem has made a deliberate effort to transform Argentina's economic future with, so far, beneficial results. He is also presiding over a political change which is often less deliberate and the effects of which are significantly more uncertain.

Some aspects of this change are linked to the new priorities of the government's economic reform programme; some to President Menem's methods of government; others to a long-term decline of traditional power bases: the military, the trade unions and the church.

"Menem has atomised the traditional corporations of the state," says one western diplomat in Buenos Aires, "but a clear picture of what will replace them has yet to emerge."

Although a Peronist, Mr Menem is from the poor state of La Rioja and thus an outsider at the centre of power. This in itself is a challenge to traditional Argentine politics. Moreover, his economic policy has made the old divisions of political parties less meaningful.

While his use of patronage has meant that dissent within his own party is practically non-existent, the success of economic reform has made it difficult for the main opposition Radical Party to argue for a coherent alternative. To suggest that the government's economic policy is wrong looks like an argument for hyperinflation.

The economic policy has also weakened the trade unions. In common with their counterparts in many other countries across Latin America and in the industrialised world, trade unions have lost power. They will lose more as reform continues.

Privatisation and bureaucratic reform have already meant a large-scale reduction of the workforce in the highly-unionised public sector, a process that will continue over the next year. The government is also seeking to weaken centralised collective bargaining and to reform the corrupt system under which unions provide medical services to members.

While some industrialists argue that the unions they face are still powerful, others say that they see evidence of increasing flexibility on the shopfloor which is helping to undermine the traditional trade union leadership.

The church remains a relatively popular institution, but it too has appeared divided in the face of the economic programme.

Meanwhile, the military – especially the army – still languishes under the humiliation of its defeat in the South Atlantic war 10 years ago. Its capability has also been reduced by a lack of spending: much big equipment appears not to function while salaries are so low that many military personnel have a second job.

While comparisons with Venezuela might suggest a dangerously unstable military, the likelihood of a coup in Argentina is now considered remote, particularly since the civilian government offers the prospect of economic stability.

Furthermore, because of the new slant in Argentine foreign policy, the armed forces, or at least parts of it, can begin to develop a more professional role. This was exemplified by the decision to send two warships to the Gulf as part of the US-led coalition against Iraq, and a contingent of 800 men being sent as part of a United Nations peacekeeping force to Yugoslavia.

Economic reform has also thrown into relief some of the shortcomings of Argentine political institutions. Privatisation, done properly, and the new discipline imposed on the central bank should reduce the opportunity for large-scale corruption. But corruption will be harder to root out on a smaller scale: in the police, in the courts and among the officials in central and provincial governments with whom Argentines still have to deal on a daily basis.

Domingo Cavallo, the economy minister

Carlos Menem: a challenge to traditional politics

A weak legal system is often cited as an obstacle to foreign investment which is an important part of the government's long-term economic policy.

The system suffers from a lack of finance, which encourages corruption among some judges. It is almost entirely based on written presentation, severely delaying legal process. (In September, an important experiment will start with oral public hearings). Mr Menem has also called into question the independence of the judiciary from the executive by packing of the Supreme Court in 1989.

Judicial reform is one possible aspect of the constitutional reform now being widely discussed in Buenos Aires. However, cynics say that Mr Menem's interest in the subject may be mainly a result of his wish to stand again as president when his term ends in 1995. He is currently barred from doing this under the constitution.

Mr Menem denies this, however. "This is not a Peronist project or a project of Carlos Menem," he said. "It's an old project that was begun by the Radical party", which held the presidency before Mr Menem took power.

At the moment, there seem few obvious rivals to Mr Menem, except for Mr Domingo Cavallo, his economy minister.

The opposition Radical Party is divided into three groups, one of which supports the former president Mr Raúl Alfonsín, who is seen as unlikely to re-emerge as a political force. The more "modern" incarnations of the Radical Party are led by Mr Fernando de la Rua, now running for election as senator for the Federal District of Buenos Aires, and Mr Eduardo Angeloz, governor of Cordoba province.

Both are seen as relatively reliable but neither has yet to carve out a strong image as a potential president.

Whoever is the next president, Argentina's opening up to the outside world should help to provide incentives against reversing reform. For example, any veering away from financial orthodoxy is likely to be punished by the international financial markets. Meanwhile, privatisation and other economic reforms should make it more difficult to defraud the state through the corruption that became endemic in the 1980s.

Nonetheless, Argentina needs time to complete its institutional reform and that time can only be bought through continuing stability in the economy. That, for now, depends heavily on a powerful president, whose political instincts are acute but essentially populist, and on a couple of his ministers.

FOREIGN POLICY

Coming in from the cold

PRESIDENT Carlos Menem's love of the grand gesture makes him, on occasions, a diplomat's nightmare.

The examples are legion. Rather than downgrade subtly the quality of the Argentine delegation to the Non-Aligned Movement, as a diplomat might have advised, he pulls Argentina out with a grand fanfare. Rather than wait for an invitation to visit Britain, which would certainly have been forthcoming in time, he announces, through the medium of the FT, a plan to pay a visit to the UK in 1992, an election year and the 10th anniversary of the Falklands war. (The visit seems likely to take place in 1993.)

In contrast to the awkward reaction of most Latin American governments to the crisis in the Gulf, Mr Menem sends two warships to support the US-led coalition. He also followed the hard US line on Cuba, breaking ranks with the rest of Latin America.

Mr Menem is telling the world that Argentina is a changed country; that the 60 years of isolationism which marked Argentina's foreign policy is over. He is seeking to bury Argentina's reputation as an unreliable player on the world's diplomatic stage.

Mr Fernando Petrella, deputy foreign minister, argues that "Argentina's internal and its international policies are a unity". In other words, a democratic, open economy requires a different foreign policy from a closed economy run by a dictator. The wide-ranging manifestations of this policy include:

Doubts remain about the government's ability to force the military to comply with agreements

■ Alignments: Argentina has aligned itself more closely to the west. This was initially seen as a pro-Washington tilt to policy, an interpretation disliked in both Washington and Buenos Aires. More recently, there has been emphasis on relations with Europe, which accounts for nearly 40 per cent of external trade compared with 15 per cent in the US. Family ties with Europe are strong – more than 1m Argentines are also citizens of EC countries.

■ *International agreements:* Argentina has professed an intention to comply with a wide range of these that it had previously refused to sign. In April President Menem signed a decree placing strict controls on the export of sensitive materials. The government has signed agreements with Brazil on nuclear inspection, and with Brazil and Chile on banning nuclear, biological and chemical weapons. The nuclear safeguards laid down by the International Atomic Energy Agency in Vienna have been adopted. The government has made a commitment to the US to abandon the Condor missile project, expressed a desire to join the Missile Technology Control Regime and committed itself to nuclear non-proliferation and the Tlatelolco treaty which banks nuclear weapons in Latin America. It has also signed treaties on international investment protection.

Despite all this, many of these commitments have yet to be ratified by the Argentine Congress. Furthermore, there will remain some doubts about the ability of the government to force compliance on the military of some of these agreements.

Nonetheless, the reaction from Washington has been positive. The US has said that some 20 Skyhawk jets are available to the Argentine air force, the first indication of US willingness to combat aircraft to Argentina since the Falklands War.

■ Relations with neighbouring countries: Argentina has eased historically tense relations with Brazil and Chile. This has a strong economic motive. The government is intent on economic integration with Brazil, the key to which is Mercosur, a customs union of the two economies with Uruguay and Paraguay. That is scheduled to begin in 1995, though its implementation may be delayed.

The hope is that Chile will join the group once Brazil's economic problems abate. But there is little doubt that the excitement in Argentina over integration with Brazil is not matched in Brazil. There are also some worries that Mercosur may restrict Argentina's ability to act unilaterally over trade matters, for example, in discussing a free trade agreement with the US.

However, given the openness of the Argentine and the Chilean economies, and the growing outward orientation of Brazil, further economic integration appears inevitable with or without agreements among governments. Companies from the three countries are already discussing mergers and joint venture agreements, and Chilean companies have already been buyers (of two power stations) in the Argentine privatisation programme.

■ Relations with the UK: Argentina restored diplomatic relations with Britain in July 1990. These had been broken with the invasion of the Falkland Islands 10 years ago. That was also the key to improving relations with the European Community.

With the issue of sovereignty under a so-called umbrella – meaning both sides retain their claim to sovereignty – fairly cordial discussions between London and Buenos Aires have moved ahead on the practical issues of fishing rights and aviation. There has been less progress on the more difficult issue of oil exploration rights.

The only risk to the Falkland islanders is the small one of an attack by some maverick force

Mr Guido di Tella, the Argentine foreign minister, has also said that the desires of the islanders will be taken into account in a settlement, a statement viewed as constructive in London.

While Britain retains a garrison of 2,000 men on the islands that the Argentines know as the Malvinas, Argentina must be considered now neither to have the intent nor the military capability to invade. Thus the only risk to the 2,100 islanders is the small one of an attack by some maverick force.

The Argentines have not given up on their claim to the islands, however, and the war remains a traumatic experience over which they still agonise. Since there is little chance of the British parliament cutting a deal over sovereignty over the heads of the islanders, the Argentine government appears to have embarked on a longer-term strategy of reducing the islanders' fear of things Argentine.

If this is so, policy towards the Falklands fits neatly with the rest of Argentine foreign policy: to convince the world that Argentina is now a democratic, stable and reliable member of the community of nations.

Stephen Fidler

FARMING once made Argentina rich, but like other areas of the economy, it has suffered a debilitating cycle of underinvestment, protectionism, and inefficiency.

Agriculture remains, nevertheless, the bedrock of the economy and is benefiting from stability. Demand is growing, prices are rising and profitability is improving. The next crucial step is for farmers to increase investment. The collapsing transport infrastructure must also be overhauled and marketing channels revamped.

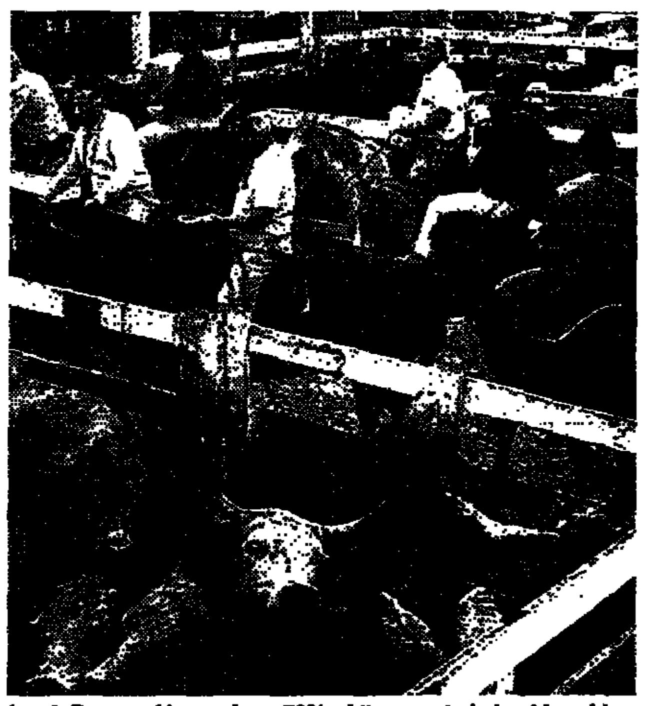
Traders, farmers and government officials have also realised that the key to future prosperity lies in adding value to the grains and beef that Argentina's fertile pampas produce at very low prices, rather than exporting them to processing plants in Europe or North America.

Instead of exporting soyabeans, Argentina should export more cooking oils. Instead of exporting beef carcases it should sell more cooked beef products. This trend is being reinforced by the US and European farm subsidies that have driven world commodity prices down. Grain prices plummeted in the late 1980s and are only now beginning to recover.

Grain output and prices touched bottom in 1987, when exports collapsed to 10m tonnes from 22m tonnes in 1985 and export revenues fell by two-thirds to \$1bn. In 1991, grain exports rose to 15.7m tonnes, worth \$2.05bn.

Exports of oilseeds have performed better, rising steadily since the early 1980s. Exports roughly doubled from 650,000 tonnes in 1981 to 1.4m tonnes last year. In value terms, shipments were worth touching \$284m in 1981, rising to \$773m in 1991. Exports of subproducts of soyabeans and sunflower seeds have risen from \$329m a decade ago to \$1.13bn in 1991.

Mr Jorge Ingaramo, assistant agriculture secretary, points to the main problem: "Agriculture uses land as an input too much and does not use enough of the modern factors of production – qualified labour, technology, capital, services, that would add more value to basic products." He says that while it would be difficult to double the size of the wheat crop, it would be feasible substantially to increase its value in four or five years.



The Estancia Harberton, Tierra del Fuego and (r) the Mercado Nacional, Buenos Aires, where 70% of the country's beef is sold

AGRICULTURE: future prosperity depends on adding value

Pampered by the pampas

At present, only one-quarter of Argentina's \$8bn-worth of agricultural exports are processed in the form of cattle feed or oilseeds. And since Argentina's output is marginal to the world market, it could double its value-added exports without depressing world prices.

Raising the capital component of farm produce will, of course, take time and require heavy investment. Farmers' profits are growing as strong demand pushes up prices. The government says they have already begun replacing worn out equipment: it reports tractor sales up by 230 per cent in the first quarter, compared with the same period of 1991. Nonetheless, farmers still complain that real interest rates of about 20 per cent a year discourage major investments.

Mr Luis Maria Flynn, president of the Argentine subsidiary of Cargill, the US grain trader, points out that there is still a long way to go. "Maybe only one-third of farmers are using modern technologies." Wider use of modern techniques could easily raise annual grain output by 25 per cent in five years to 50m tonnes, he argues.

The challenge, then, is how to encourage the other two thirds of farmers to use more advanced equipment. Although farmers understand that there is no point in lobbying the government for subsidised loans or grants, there is still a lot the public sector can do to help. Mr Ingaramo admits that the government must provide better rural extension services, better sanitary controls, and develop marketing services, such as a country brand.

Farmers also need to become less tradition-bound and to be more business-like, examining their costs carefully. They are already beginning to use financial instruments like futures hedging to avoid price fluctuations.

Even though the pampas, the most fertile tract of land in the world, provide Argentina with an awesome competitive edge, protection from outside competition over the past 60 years has atrophied agriculture. Argentina never bothered to develop premium products such as fine cheeses or exotic fruits.

Because Argentina was a closed market, the consumer could buy only produce that was available locally. For the same reason, Argentina failed to develop new export markets in fresh produce, exotic fruit or in wines, as Chile did during the 1980s.

Mr Osvaldo Sarachu, an economist at Coninagro the farm cooperative organisation, points to the dilemma: "The farmer wants to make the consumer buy what he sells and not sell what the consumer wants. Yet when new products arrive, they sell well. The problem is the retail system, which is inefficient and has big margins that are not shared with the farmer."

Argentina's atrocious transport infrastructure adds heavily to farmers' costs. Mr Flynn reckons that costly and inefficient ports alone have lost farmers \$100m over the last five years in extra costs. Buenos Aires is reputed to be the world's most expensive port.

Public services, such as ports, railways and toll roads, are being transferred to the private sector this year. They should lower costs and improve efficiency dramatically, although exporters complain that the companies taking over port facilities are being allowed to set prices artificially high.

Growing integration with Brazil will open a huge new consumer market for processed beef, dairy, poultry, fruit and vegetable products. The bigger market would enable Argentines to exploit economies of scale they lack at present, allowing them to become more efficient. Agricultural specialists see conquest of a significant slice of the Brazilian market as a first step to penetrating European Community, North American and Japanese markets.

The shift from basic farm products to more sophisticated ones will require a drastic shake-out. The government reckons that there are 200,000 family farms that are no longer viable units. They will be bought out by larger, more capital-intensive farmers.

Inevitably, farmers have major doubts. Their misgivings are similar to those of industrialists. The key question is confidence: is it worth investing, especially if a farmer cannot be certain Argentina's inflation, exchange rate and cost structures will not get out of hand?

Labour is a major agricultural input, but wages have risen dramatically. On average they have doubled to \$450 a month in just one year. In some cases, wages have risen more than fourfold, wiping out profits.

Farming requires long lead times. It takes six months to grow cereals and three years to produce a steer ready for slaughter. Farmers fear that if they begin investing now to meet rising consumer demand, the boom may end just as their investment is ready to hit the market.

Mr Sarachu also points to the danger of social disequilibrium as small farms are absorbed by larger ones and their former owners are either driven into urban slums or retained as low wage labourers. This would be all the more worrying if investment does not take place. He warns this would create wealth concentration in a context of stagnation. "High investment costs are preventing diversification or expansion of output."

John Barham

MENEM AND CAVALLO

A relationship built on mutual need

IT IS a marriage made in hell. President Carlos Menem and his Mr Domingo Cavallo, his economy minister could never survive for long without each other. Equally, their relationship is racked with fear, jealousy and suspicion. Little wonder then that they are regularly said to be on the verge of splitting up.

Although they have wrought one of the world's least likely economic miracles, their stormy relationship is also a permanent source of uncertainty. The edgy business community would be deeply unhappy if Mr Cavallo left, believing that the impetus of reform would suffer with his resignation.

However, Mr Cavallo, 46, warns: "Do not underestimate Menem and me. We have demonstrated that, even when nobody abroad believed us, we continued in the direction we decided on."

> A glutton for work, Cavallo rouses his aides at dead of night to discuss policy

The two men could hardly be more different. Mr Menem, 61, is a typical Latin American politician – a charismatic populist with firm grip on all the reins of political power, but only a limited grasp of the intricacies of diplomacy and economic policy.

Mr Cavallo is a technocrat rather than a politician. He took an economics doctorate at Harvard and has a clear understanding of how the worlds of high finance and international relations work. He is also a glutton for work and is notorious for rousing his aides in the dead of night to discuss policy.

Mr Menem is said to be easily bored or irritated by Mr Cavallo's laborious efforts to explain recondite economic theory. While Mr Menem may have established the broad political and economic strategy, he is only too happy to leave execution in the safe hands of Mr Cavallo.

Others say Mr Menem feels frustrated in his relationship with Mr Cavallo and is given to taunting and humiliating his minister – a claim Mr Cavallo obviously denies. He does say Mr Menem's occasional bursts of anger subside quickly when a decision is shown to be in line with government policy. Still, the punctilious and unrelenting minister contrasts sharply with the president's lighthearted and less intense personality.

Mr Menem's jealousy seems to be worsening as his minister goes from success to success. Mr Menem said in an interview that Mr Cavallo "will continue in his job as long as he follows the directives of the president. Ministers must know they are like fuses – they are the ones that get worn out. The one who does not go is the president."

Mr Menem added: "There are two forces: the force of his capacity, talent, honesty. And there is political force, which is more important, which the president gives him."

Mr Cavallo understands Mr Menem's jealousies and makes every effort to pass off his achievements as those of Mr Menem. He does recognise that his success depends strongly on Mr Menem's political backing. "To carry out change like this requires power, and power is essentially a political question," Mr Cavallo says.

Despite his claim to be an apolitical technocrat, Mr Cavallo is said to have engineered the fall of several of his cabinet colleagues and some of the more unsavoury members of the president's personal entourage. Mr Cavallo is suspected of leaking some of the corruption scandals to the press that have forced Mr Menem to purge the government. That is a charge Mr Cavallo vehemently rejects. Nonetheless, he is hated by Mr Menem's close friends who are widely suspected of corruption.

The two met after Mr Cavallo was elected to Congress as an independent in 1987. At the time, Mr Menem was the governor of the impoverished province of La Rioja. When he came to power in 1989, he made Mr Cavallo foreign minister. Mr Cavallo won international respect for renewing diplomatic links with Britain and mending fences with the international community. He also kept an eagle eye on economic policy. He became economy minister in January 1991 after an inflationary burst forced his predecessor to resign.

Politics are at the heart of their increasingly difficult relationship. Opinion polls regularly place Mr Cavallo far ahead of Mr Menem, and his policies are credited with winning last year's mid term elections. He is therefore an obvious potential presidential candidate when Mr Menem's term expires in 1995.

> Opinion polls regularly place the economy minister far ahead of President Menem

But Mr Menem wants to reform the constitution that bans successive presidential terms and run for re-election. However, much as Mr Cavallo denies presidential ambitions, he is generally assumed – by Mr Menem and by many others – to want to become president.

There is a risk that Mr Menem will fire Mr Cavallo or try to compromise his rigidly orthodox economic policies to win support for constitutional reform. Another big worry is that the horse trading of a re-election campaign would fuel corruption. Mr Cavallo and his team are seen as a bulwark against corruption.

The general assumption is that Mr Cavallo will probably remain in office at least until the end of the year. For his part, Mr Cavallo says he supports and is working for re-election and says he hopes to be foreign minister in Mr Menem's second government.

John Barham

DECENTRALISATION

Provincial burdens

ARGENTINA IS a country with a small population that is crammed into one corner of its huge territory. The province of Buenos Aires, where over one-third of the 32m population lives, casts a long shadow over the other 23 provinces.

Its stranglehold may be weakening now that the key posts in the federal government are held by outsiders. President Carlos Menem is from the province of La Rioja in the west, and Mr Domingo Cavallo, the economy minister, is from Córdoba in the centre.

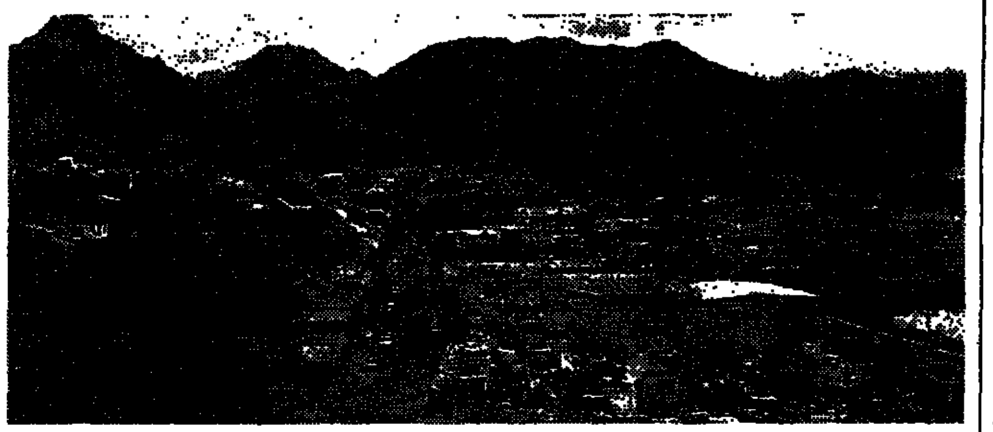
The government is trying to make Argentina a truly federal state, probably for the first time ever, through a big decentralisation programme. When the process is completed next year, Buenos Aires will only be responsible for defence, federal justice, trade and economic policy, tax collection, foreign relations and some educational services.

By law, 56 per cent of most taxes raised by the national government are transferred to the provinces. Local revenues are increasing dramatically with the rise in tax collection. Transfers are forecast at \$12.8bn this year, 26 per cent more than in 1991. Transfers should rise to \$15.1bn next year. Oil-producing regions' revenues are growing faster still, since they charge royalties on production.

Nonetheless, the provinces' atrocious finances are a permanent threat to economic stability, and the federal government is trying as hard as it can to force them to adjust. Only a few have advanced very far in reorganising themselves. Far too many regions have a bloated, inefficient government sector, burdened with over-regulation and corruption.

Mr Cavallo has ended the provinces' virtually automatic central bank funding, and the World Bank and Inter-American Development Bank have made reform a condition for releasing \$600m-worth of loans earmarked for local government.

Provincial governors may complain of bullying, but in the end they have little choice but to comply. Some provinces, like Córdoba and La Pampa in



Ushuaia, Tierra del Fuego – the southernmost city in the world

the agricultural heartland, are reasonably well administered. Córdoba is perhaps the only province to have fostered a flourishing enterprise culture.

Others, such as La Rioja – which Mr Menem governed until he became president in 1989 – are a disgrace. Last year, one in 10 of La Rioja's population of 221,000 worked for the government and wages consumed 65 per cent of spending. Like some other provinces, it used to cover its budget deficit by printing provincial money. Last year it raised a mere 5 per cent of spending from local taxes; the rest came from central government transfers.

The provinces must change their political systems. Many are run by political clans that have clung to power for decades through a blend of patronage, corruption and brutality. Some ruling families lost power in last year's gubernatorial elections. Those that remain are finding that their old tactic of extorting federal aid in exchange for support in Congress is becoming less effective.

Mr Cavallo believes that voters will demand more efficient local government. However, there is an obvious risk that increasing tax revenues will strengthen the power of local strongmen and allow them to stave off economic adjustment.

The provinces could make greater efforts to develop untapped resources. For instance, the western Andean provinces have done nothing to encourage mining, and those on the Atlantic seaboard could easily develop fishing industries.

Some analysts wonder if certain provinces are viable administrative units. Some cover huge areas with small populations. Others are relatively populous but have small economies. The burden of providing provincial and municipal levels of government may be too much for them, making some form of regional administration or amalgamation necessary in the future.

John Barham

The Praca Fuerza area — with the main railway station of Buenos Aires in the background

PRIVATISATION

Minimalist role of the state

GIVEN THE depth of the economic crisis which faced Argentina in 1989, any incoming president would have had to begin reform of the state wrought by Juan Peron. But perhaps only a Peronist, such as President Carlos Menem, could have begun to dismantle it with such vigour.

By the time the privatisation programme is complete — and the greater part of it should be concluded this year — enterprises responsible for 30 per cent of the country's gross national product will have been transferred from the government to the private sector.

The airline and state telephone businesses have already been privatised. They will be followed by gas, electricity, railroads, water and sewerage systems, part of the banking system, steel mills, petrochemical plants and more. Even the state oil company, sacrosanct in other privatising countries such as Mexico, is going up for sale.

Since the federal government is also transferring some health and education responsibilities to the provinces, central government will have a minimalist role, accounting for less than 10 per cent of economic activity. If the plan is carried through, the state will have responsibility for public security, defence, health, education and not much more.

The government now admits that its early privatisations were not well managed, and that the companies were privatised into an under-regulated environment. This has meant, for example, that the buyer of Aerolineas Argentinas — Iberia of Spain — has an effective monopoly on domestic air routes since it also controls Austral, the other Argentine airline.

In a country such as Argentina, a giant privatisation programme is a dangerous thing on which to embark in haste. So, when Mr Domingo Cavallo took office as economy minister at the start of last year, he put the privatisation programme on hold. Mr Cavallo recognised that in a country where corruption had become almost institutionalised, privatisation offered an opportunity for corruption on a grand scale. A discredited privatisation programme would risk credibility of the whole economic reform programme.

His ministry set about developing new procedures to make the bidding process more transparent and to work on the regulatory regimes into which the companies would be privatised.

The concept of separating the functions of policy-setting and regulation is not highly developed or widely understood in Argentina. However, using models mainly from the US and UK, the establishment of the regulatory regimes for gas, electricity and water is well-advanced. Mr Cavallo, seeking to get the telephone regulatory authority to enforce its regulations more aggressively, replaced the entire board.

In this time, the government has also moved more aggressively to knock companies into better shape before they are sold. They raised tariffs as subsidies were slashed: in mid-1989 the income of public companies was 37 per cent lower than their spending. Large numbers of employees were also made redundant. According to Mr Juan Sanchez Arnau, assistant privatisation secretary, the total 230,000 workforce in state enterprises was cut by 25,000 last year. By the end of 1992, the job cuts will have grown to 55,000 — at a cost in redundancy payments of $1.2bn.

The ministry is now calling for bids for two or three companies a month, under different procedures for each company. Controlling stakes of utilities will be sold to operators, with the government retaining the rest to be sold later on the domestic and international equity markets.

Also to be privatised, although the timing and methods of sale are less clear, are 30-odd companies owned by the defence ministry. Some of these are manufacturing companies in poor shape. For the sake of the credibility of the privatisation programme, bankers in Buenos Aires say they hope the defence ministry privatisations are carried out with the same transparency as later ones in the economy ministry's programme.

The delay ordered by Mr Cavallo will probably mean higher prices for the sales, as illustrated by the two telephone companies, Telefonica and Telecom. When the initial 60 per cent of these companies were sold at the end of 1990, the government obtained $214m in cash and $5bn in debt paper, at that time valued at 17-18 per cent of face value.

When the remaining 30 per cent was sold to the local and international market (employees hold 10 per cent), last November and in February, it raised $2.057bn.

The most ambitious privatisation is probably of YPF — Yacimientos Petroliferos Fiscales, the state oil company. The state's parlous finances were such that the company was unable to explore for and develop fields.

The first move to break YPF's monopoly was announced early in the Menem presidency. Concessions were offered to other companies in secondary fields. In the company's central fields, joint ventures were offered to foreign companies in return for an equity share in the oil produced. The deregulation of oil production and prices was announced, to come into effect at the start of 1991, a deadline which was kept in spite of the crisis over Iraq's invasion of Kuwait.

Even though the monopoly was in effect broken, YPF remains the largest oil company in the country. Having already changed its legal status to that of a corporation which can suffer bankruptcy, it is now seeking congressional approval to get rid of non-strategic assets such as its shipping fleet, 50 drilling rigs and its seismic crews, and to open its capital up to outsiders.

It has already reduced its workforce from around 52,000 in August 1990 to a current 21,000. By the end of this year, the number of employees will have fallen to 12,000, still regarded as above the optimum number. The $350m bill for termination of employment is being paid from cash flow. The company's balance sheet is also being cleaned up, with the writing off of significant debts. A complete overhaul of the company's operating and accounting systems is under way.

Mr Jose Estenssoro, YPF's president, said the aim is to transform YPF into an "integrated, well-balanced oil company".

The plan is to sell over three years 50 per cent of the company on the domestic and international markets. A further 10 per cent will go to employees.

According to Mr Estenssoro, the initial offering will be of at least 20 per cent of the company, which has been valued at about $8bn once the restructuring is complete. The shares will be sold in the US markets in the form of American depositary receipts (ADRs) and listed in London and Buenos Aires. Since the New York market requires three years of internationally audited results, a sale there would not be possible before the 1992 figures have been published. (1991 profit was about $300m after tax, compared with $70m in 1990, on revenues of about $5bn.)

Another element in the plan is to transfer ownership of the oil properties (once the concessions have run out) to the provinces, and a settlement of a legal battle between the state and the provinces over royalties for past oil production. This debt over about $3bn may be paid in bonds convertible into the remaining 39 per cent of the shares of YPF, shares which could in time find their way on to the market.

Stephen Fidler

Industry's problems

Challenge of competition

THE challenge to Argentina's manufacturing industry is clear: it must modernise, begin investing and rapidly attain international levels of efficiency. The challenge is all the greater, not just because Argentina has invested little in recent years, but because it has not built an internationally competitive industrial base, in spite of 60 years of protectionism.

Import barriers, subsidies and cartelisation have led to grotesque distortions and inefficiencies. Large swathes of industry are now unable to compete. Businessmen realise the old days of government support have gone for good: the bankrupt state is unable to protect them any longer. On the contrary, President Carlos Menem has converted Argentina from one of the world's most closed economies into one of the most open ones.

Analysts agree that large sectors of the car, steel and engineering industries will succumb to foreign competition, especially from Brazil, as economic integration deepens.

The government has ignored industry's appeals for help. But it is trying to reduce the inefficiencies that weigh heavily on companies' costs. The energy, transport and communications infrastructure is being privatised. Unnecessary regulations are being scrapped, the labour market is being reformed and the banking system broadened to cut financial costs.

Companies are benefiting from rising domestic demand, softening the impact of import competition. Manufacturing industry raised output by an average 20 per cent last year, with productivity increasing by 7 per cent. However, the trend is uneven: car output in the first quarter rose 167 per cent, while steel production slumped by 27 per cent.

Few companies are focusing enough on controlling costs. An automobile executive says: "Argentine companies are not very competitive. Argentina must make a greater effort to reduce costs of inputs and labour." He says labour costs are 40 per cent greater than in Brazil — hardly an efficient economy — and component costs are 30 per cent greater. Overall, costs are 50 per cent above international levels.

Nonetheless, some multinationals have been able to operate well in Argentina. Thus, Autolatina's new US$220m state-of-the-art axle and gearbox unit is as efficient as any in the rest of the world.

The government says industry must concentrate on areas where it can exploit Argentina's principal strengths. These include low-cost energy, an efficient agricultural sector and abundant capital. Private savers hold an estimated US$50bn in overseas bank accounts. A tenth of that flight capital returned last year.

Companies should therefore expand in food processing, services, energy and capital-intensive industries and specialist market niches such as electronics or special plastics.

An example of growing economic specialisation is Arcor, a leading sweet company. It plans to raise sales by 52 per cent over five years to US$855m in 1996. It is capitalising on Argentina's plentiful supplies of natural gas and foodstuffs and intends to increase its presence in Brazil.

Though sales across the board are booming and companies can sell all they produce, the economy is still the same size as in 1980. There are few signs of big ticket investments. Businessmen say the economic climate is too uncertain. They are still unsure whether to hire more staff: most factories are currently working a single shift. They add that they lack confidence to take on more staff because the law makes it expensive to shed workers if sales stop growing.

Furthermore, most large companies are too busy buying up state companies to spare resources for industrial investments. Nevertheless, imports of capital goods are growing.

But companies are not exporting much. Most lack experience in fiercely competitive international markets. Industrial exports grew by only 2 per cent last year to US$1.09bn. Industrialists claim it is pointless to sign up overseas clients or invest for the export market until stability is consolidated and the economy's cost levels are revealed more clearly.

Argentina will at best balance its trade account this year. Next year, it will almost certainly sink into the red. Hopes for achieving annual growth of 5-6 per cent will inevitably peter out unless companies begin exporting and investing soon.

John Barham

Bank mergers seem likely

Interest rates on way down

IF THERE IS one issue that unites bankers, farmers, industrialists and politicians, it is the high cost of credit. High interest rates are discouraging investment at a time when continued expansion depends heavily on investment.

Mr Domingo Cavallo, the economy minister, and Mr Martin Redrado, president of the National Securities Commission (CNV), are both acutely aware of this problem and are working urgently on reforming the financial system.

Mr Cavallo's reforms are intended to eliminate the government's role as borrower on the local and international markets, allowing the private sector to occupy that space. Companies have already begun responding, firstly by issuing bonds on the domestic market, followed by a flurry of Eurobond issues in early 1991.

Interest rates have already fallen dramatically as inflation subsides, capital floods into the country and Argentines regain confidence in their currency. This is a significant change from previous adjustment programmes, in which governments were forced to keep interest rates artificially high to defend the exchange rate. Despite such action, sooner or later, the currency would slide as speculative investors poured out of the market.

In March, Argentine banks had $16.84bn on deposit — almost twice their volume a year earlier and almost seven times more than in March 1990. Just as importantly, depositors are increasingly willing to leave their money in the bank. For the first time in over three years, deposits with maturities of over 30 days — $1.60bn — exceeded short-term deposits of $1.41bn.

Businesses have made huge savings as their financial costs shrink and the risk of devaluation recedes. Interest rates on

A significant change from previous adjustment programmes

the interbank market have fallen to 8 per cent a year, compared with 17.5 per cent at the beginning of this year.

Mr Alan Clutterbuck, planning and financial manager at Alpargatas, a Buenos Aires textile company, says: "Our financial costs were 25 per cent a year in 1991. Now they are 10-11 per cent a year. You can add this as profit to your bottom line."

Companies have also been able to raise money on the local and international capital markets with increasing ease and banks have been able to raise capital at ever-declining rates, allowing them to lower interest rates further.

The government intends to continue reducing reserve requirements which now stand at an average of 40 per cent, and this will allow banks to reduce the spread between interest paid to depositors and that charged to borrowers.

Despite the declining cost of credit, it is still hard to find many investment projects that are financially rewarding. This is especially so for smaller companies and those based outside greater Buenos Aires, which are saddled with higher interest charges.

That is where further deregulation and development of the capital markets come in. The financial system is in flux as it adjusts operating costs to lower revenues: the retail sector is shrinking to a core of seven to 10 banks. Those unable to compete in retail banking are struggling in the cut-throat investment banking market.

A few universal banks will operate in all sectors of the market. Banco Rio, already the country's largest bank, says it intends to operate as a major retail bank, an investment bank, strengthen international operations and set up a pension fund.

Eventually, many of the country's 160 banking institutions will have to merge or disappear. Many were opened during the 1980s, when speculation, lax regulation and fraud were rampant. Bank failures cost the central bank $15.8bn during the 1980s through liquidity loans to collapsing banks and deposit guarantee schemes.

Bankers now say the risk of financial "melt-down" has receded and expect the system to adjust without much trauma. The central bank has abolished its unlimited deposit guarantee, although regulation is still weak.

The capital market, too, has undergone sudden change. The Buenos Aires Stock Exchange suddenly came alive last year, after decades of torpor. In 1991 the exchange's Merval index rose by 370 per cent as Mr Cavallo's policies took effect. Today, daily trading volume often exceeds $80m, compared with an average $3.3m in 1990.

The boom has been due entirely to a sudden inflow of mainly Argentine funds repatriated from offshore bank deposits that now pay low international interest rates.

Mr Redrado has tried hard to make the market more fluid, by focusing on deregulation, reducing transaction costs and bringing new equity into the system. Response from companies has been disappointing, although several big corporations are thinking of going public for the first time, while others are planning rights issues. That will help slake the thirst for paper. The largest company to state its interest in selling equity is Sevel, the country's largest car manufac-

It is still hard to find financially rewarding investment projects

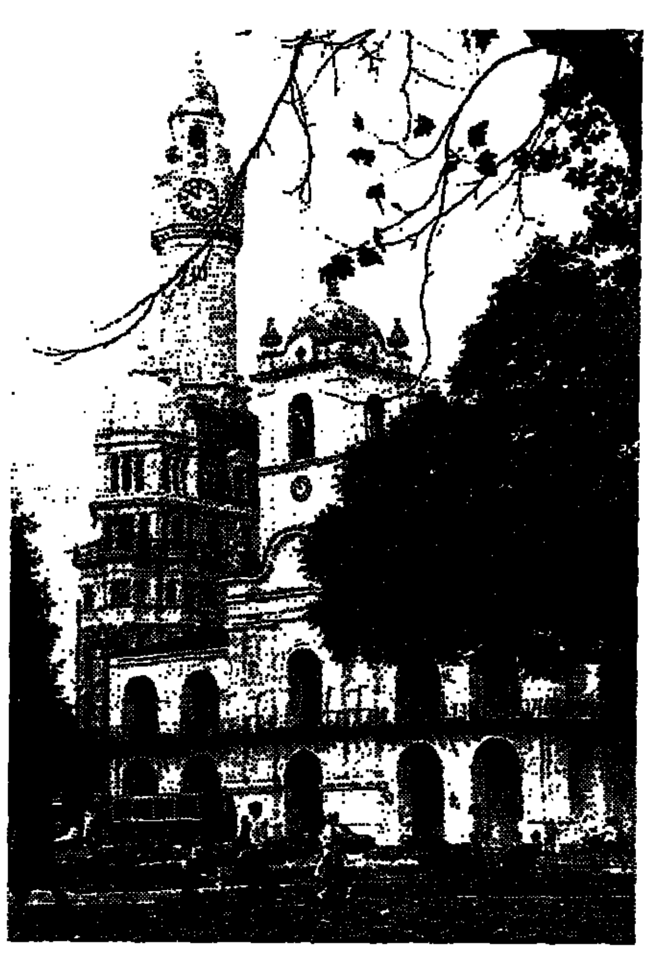
turer.

Simultaneously, the CNV is tightening up on policing by cracking down on trading irregularities, demanding improvements in accounting standards, and encouraging privately-run credit rating services. However, critics say that while the direction of reform is positive, execution is still only patchy.

Two critical changes are due this year. One is the privatisation programme, in which the government plans to sell more than 60 state companies. It will float part of the equity of many of these companies on the local and international markets. The flotation of the government's remaining 30 per cent in the two telephone companies has already raised $2.06bn. A raft of privatisation issues will hit the market not only in 1992, but over the coming years.

The second reform will be the introduction later this year of a private pension fund system, which is expected to channel $2bn a year into the capital market from a 10 per cent levy on wages. The government is establishing investment guidelines that are expected to favour the equity market.

John Barham



(Above) San Telmo, the antiques and craft market in Buenos Aires and (right) the Cabildo - the colonial town hall - in the Plaza de Mayo

What to do in Buenos Aires

A city that comes alive at night

BUENOS AIRES is probably the least stressful of Latin America's major cities. Its relatively uncongested streets, and clear air make it a welcome relief from Mexico City, Rio de Janeiro or Caracas. Although crime is rising, murder, robbery and drug use – and other *features of many modern cities* – are still rare enough to make the news.

Buenos Aires does take some getting used to. Argentine lifestyles are demanding, with evening meals beginning at 10 and night life only really *starting after midnight and* ending at dawn on weekends. Fortunately, Porteños as the inhabitants of this port city call themselves, are not early risers - the morning rush hour normally reaches its peak around 10 a.m.

It is easy to get about, since government offices and corporate headquarters are packed within walking distance of each other into a small part of the city centre known as the microcentro. The city is swarming with taxis: unlike many other Latin capitals, drivers know the city's streets well and are often honest.

Buenos Aires has good restaurants, theatres, cinemas and several beautiful parks. Many of the best bars, cafes and restaurants line the Recoleta park in one of the city's most exclusive residential neighbourhoods. But be prepared: going out is not cheap. Buenos Aires is among the *most expensive cities in the* world. A meal for two with a local wine in Recoleta will cost $100 for two. A tip of 5-10 per cent is expected.

As might be expected, beef is the staple food of Argentina. Vegetarians will find it diffi*cult to cope, all the more so as* lettuce, onion and tomato salads or potatoes are the only concessions to a balanced diet. Health freaks will also have to put up with inhaling cigarette smoke. No smoking signs are almost universally ignored.

Leading international credit cards are widely accepted, as are US dollar bills. However, travellers should be warned to only use and accept dollar bills that are in good condition: Argentines reject torn, crumpled or defaced money.

Argentina changed its currency in January, replacing the austral with the peso. One peso is worth 10,000 australs or just over one US dollar. Be careful, *because austral notes and* coins are still in circulation and taxi drivers and waiters occasionally try to fleece the unwary by "accidentally" confusing austral and peso values.

The San Telmo antiques market on Sundays is a favour*ite with foreigners and locals.* Also popular are visits to La Boca, a working class district with brightly painted houses which was first settled by Italian immigrants in the 19th century. However, it should be avoided during carnival, when *people attack each other with* buckets of water and hosepipes.

Browsing through the late night bookshops on Avenida Corrientes is a well-established local habit. A visit to the Boca or River Plate football stadi*ums is an unforgettable experi*ence with fireworks, tickertape and ecstatic chanting to greet the teams as they enter the pitch. British visitors may also want to visit the exclusive Hurlingham Club, founded by the Anglo-Argentine community, where cricket and bowls are still played.

Watching polo, even for the uninitiated, is fun. Buenos Aires has several polo pitches *and there are matches on most* weekends during the season. Visitors may also want to watch or even dance the tango. Most dance halls are tourist traps, but a few venues can still be found which preserve the traditions of tango with *loving dedication.*

Buenos Aires has several glitzy and expensive discos that open their doors around 1 a.m. Suits and ties for men and short, tight dresses for women are *de rigueur*. Argentines are careful, if conservative dress*ers. Unpolished shoes*, crumpled clothes or unconventional fashions are viewed with disdain.

The city empties from December to March as Porteños decamp to the seaside on holiday

These days, Buenos Aires is brimming with business visitors from abroad, filling its five luxury hotels to capacity. Finding a good hotel room can often be a frustrating experience. However, English is widely spoken in the city centre and by most business peo*ple.*

Shop opening hours are strictly observed, particularly on Saturdays, when many shops close promptly at 1pm. Central Buenos Aires is packed with leather goods shops of varying quality and prices - *shoppers are advised to look* around before buying. Silverware and handicrafts can also make good presents. Argentine wines can be worth trying, and a hit with visitors is Bodega Menem - the wines produced by President Carlos Menem's *family business.*

Buenos Aires can be uncomfortably hot and humid in the summer, although most buildings in the city centre are air conditioned. The city empties from December to the beginning of March as Porteños *decamp to the seaside* for summer holidays. Arranging meetings can be a problem at this time of year. Winters are chilly, with temperatures falling to freezing in July and August.

Although nearly all major *businesses* are headquartered in Buenos Aires, where over a third of the population lives, the cities of Cordoba and Rosario are also important business *centres. There are frequent* daily flights to both cities. However, flights are far from punctual and are expensive: the one hour flight to Cordoba costs $242 return.

Buenos Aires has two airports. The international airport *at Ezeiza is a 40 minute drive* from the city centre, with cabs costing $50-60. The US government warns that security arrangements at Ezeiza are inadequate. The Jorge Newbery metropolitan airport handles domestic departures and *some flights to neighbouring* countries.

As for the mountainous south, hiking and fishing is recommended during the summer in the spectacularly beautiful area around the resort town of Bariloche. Its ski slopes are packed during the winter. However, the pistes and prices compare unfavourably with neighbouring Chile.

John Barham

Why Página/12 has become required reading

Scandals revealed

HOW IS IT that a muckraking, stridently anti-establishment *newspaper launched on a shoe*string five years ago has become one of Argentina's best selling and most influential newspapers?

Página/12 is now required reading among businessmen, diplomats and politicians as well as its target readership of professionals, students and left wingers. It has built up an average daily circulation of 110,000 with a diet of punchy *news, investigative journalism,* opinion and cultural columns.

Mr Jorge Lanata, the newspaper's 32-year-old editor, explains that "people read us to get information. We began attracting readers with our political coverage and busi*nessmen began reading* us because they needed good information."

Página/12 – so-called because it was launched with just 12 pages – was thrust into the vortex of national politics in January last year when Mr Horacio Verbitsky, its leading political columnist, wrote that Mr Menem's brother-in-law had demanded a bribe from an American company. The scandal, which forced Mr Menem to purge half his cabinet, put corruption more firmly than ever on the political agenda.

Three months later, Página/12 again beat the opposition by breaking *the news that* Mr Menem's sister-in-law – who is also his appointments secretary – was under investigation in Spain for laundering drug money. The ensuing scandal almost brought Mr Menem down.

It is hardly surprising that he loathes Página/12 and its 110-strong staff. Last year he even attempted to throttle the newspaper by cutting off federal government advertising - a bid that boomeranged when it set off an international outcry *against press censorship.* The advertising embargo was quietly lifted after two weeks.

The paper's unconventional layout – it covers nearly all its front page with photomontages that invariably ridicule a member of the government – also sets it apart. *Its bold headlines* and snappy text makes it easily digestible. Nonetheless, its narrow focus on capital city politics and sterile government *infighting can be tedious.*

Página/12's success reflects the growing maturity of Argentine society. *Mr Lanata says:* "We are not a left or a right wing newspaper. I say we are a liberal newspaper. The left attacks us for belonging to the *new right and the right attacks* us for being on the left." Nonetheless, Página/12 rarely finds anything praiseworthy in Mr Menem's government.

The press, led by Página/12, has become one of the few effective checks on Mr *Menem's growing personal* power. The courts, congress and supposedly independent control agencies have come under growing government influence.

As Página/12 began publishing exclusive stories, people in the government, the armed forces and business realised its reporters protected their sources and would print almost any story it thought reasonably accurate and newsworthy.

That has made Página/12 the preferred medium for govern*ment leaks, giving it access to* yet more exclusive stories which have boosted its circulation still further.

However, Mr Domingo Cavallo, the economy minister, like ministers all round the world, complains that the media twist the news. He says: "Verbitsky suggests that the corruption now emerging means that what we are doing is bad, and that is not true. *What we are doing is a real* struggle against corruption. Eighty per cent of what he writes is true, but he adds 20 per cent of his own version that changes the conclusion."

He says the media, particularly Página/12, has a dispro*portionate influence on public* opinion because its readership is heavily concentrated in wealthy and middle class areas of central Buenos Aires. Mr Cavallo claims the paper is hardly read in the outskirts, where the government draws a lot of its support among low income groups which have benefited the most from his policies.

Its front page invariably ridicules a member of the government

The competition is having to react to Página/12's successes. For instance, the tabloid Clarín, Argentina's best-selling newspaper, has promoted younger and more aggressive editors who have begun to outflank Página/12 with exclusive *articles of their own.*

Página/12 has also shown considerable entrepreneurial spirit. Its solidly faithful readership has made it an attractive vehicle for advertisers. Mr Jorge Prim, the paper's vice-president, says: "Business*men pay, and pay well, to* advertise. Freedom of the press is good for business." Revenues have doubled since last year to an average of $1.2m a month.

It broke into the corrupt entertainments advertising market by refusing to accept payment for positive notices of films, plays or concerts. Instead, it began holding film previews of its own and sold *tickets to readers* from its offices. When advertisers saw that Página/12's previews sold out in two hours and could literally fill large cinemas to *capacity,* it began taking out advertisements – irrespective of the critics' notices.

In a recent marketing effort, the newspaper has begun giv*ing away paperback books free* once a month on Sundays. It finances the offer with advertising on the back of the books, which are usually by highbrow local and foreign authors. Mr Lanata says print runs of 150,000-160,000 on Sunday editions with books sell out, whereas on most other Sundays he sells 7 per cent fewer newspapers.

Mr Lanata had the idea of launching a newspaper shortly after Argentina returned to democracy in 1982. He found a *backer in Mr Fernando Soko*lowicz, a progressive young businessman who put up the capital and still owns all the newspaper's shares.

While Página/12 still only breaks even or makes a small operating profit, it has an *entrepreneurial spirit that* seems out of place in a newspaper that rails against big business and struggles for a fairer society.

Like so many businesses in Argentina, Página/12 suffered greatly from hyperinflation in 1989 and 1990, and like so many others, it is now benefiting from low inflation and booming demand. So much so, that it is running out of capacity as demand outstrips supply: Página/12's presses simply cannot turn out enough newspapers.

It plans to increase circulation later this year by printing in Córdoba Argentina's second city 650 km west of Buenos Aires. Mr Lanata says Página/12 will be Argentina's first newspaper to use satellite tech*nology to transmit pages to the* presses in Córdoba.

Using its customary flair, Página/12 is financing the introduction of computer technology to the newsroom with an advertising swap with IBM. The feasibility study was farmed out to *university* computer science students.

John Barham

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COMPANIES & MARKETS
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INSIDE

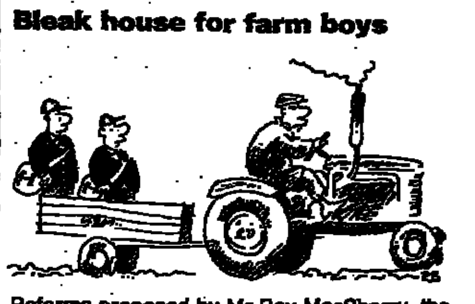
TI Group declares £509m bid as final

TI Group, the specialist engineering company, yesterday turned the heat on bid target Dowty, the UK aerospace and information technology group, by declaring its £509m ($921m) offer final. Mr Christopher Lewinton (above), chairman and chief executive, said that the original share offer fully valued Dowty. Page 20

Sega to pay $43m settlement

Sega Enterprises, the Japanese video game maker, is to pay $43m to settle a patent dispute with a US inventor, Mr Jan Coyle. It will be the second large US patent payout by a Japanese technology company in recent weeks. Page 17

Bleak house for farm boys



Reforms proposed by Mr Ray MacSharry, the EC farm commissioner, make the future of quality 500-acre family farms in the UK look bleak. Only recently a 500-acre farm would provide a comfortable living – certainly enough to send a couple of sons to public school. But its annual net income, estimated at £20,000 ($36,200) now, could fall to £3,500. Page 23

Taking stock of votes

Election fever coursed through Europe last month but the results had contrasting repercussions in the Italian and the UK stock markets. In general, volumes were subdued with Easter and May Day creating a holiday mood which extended for almost two weeks. Back Page

Computer champ on the ropes

European efforts to create a strong international computer champion have taken a battering recently. Siemens Nixdorf Information Systems, formed in 1990 from the troubled Nixdorf information technology business, will still be in the red at the end of its current financial year. But Mr Hans–Dieter Wiedig, the company's chief executive, says: "We do have to find new rules for the game; Europe has resources, demand and skills, but it lacks co-ordination." Page 16

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Kaufhof	498	+	7	Intertechnique	900	+	30
Lahmeyer	787	+	12	Sagem	2220	+	165
Rheinmetall Ber	315	+	10	UFB Locabail	360	+	15
Falls				**Falls**			
BMW (Br)	574.5	–	16.1	Audi Entrepr	743	–	27
Billing Berg	1025	–	8	Cetelem	780	–	24
Philips Kommun	570	–	10	Immobanque	685	–	44
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Kodak	41⅝	+	1½	Juken Sangyo	579	+	80
Limited Inc	22⅛	+	⅜	Koito Ind	1950	+	200
Polaroid	25⅜	+	⅞	Nisshin Flour	1190	+	120
Falls				Takashimaya	475	+	53
Gen Electric	78⅜	–	⅝	Toyama Chemical	740	+	83
Philip Morris	78⅛	–	¼	Unitika	463	+	63
Seagate Tech	16½	–	1½				
LONDON (Pence)							
Rises				Union Discount	161	+	17
AcornComputer	28	+	6½	Unit	55	+	7
Avon Rubber	459	+	24	Wace	194	+	21
Beazer	20	+	4	Yorklyde	257	+	17
Caskot	30	+	4	Young (H)	86	+	8
Devenish (JA)	277	+	12	**Falls**			
Filofax	41	+	9	Dumas	13	–	7½
GWR	315	+	27	Gates (FG)	71	–	8
Huntleigh Tec	555	+	35	Ibstock Johnsn	77	–	7
Linread	98	+	15	Mosaic Inv	92	–	7
Morland	485	+	35	Psion	185	–	18
Sainsbury (J)	459	+	20	SEET	60	–	7
Select Appts	8½	+	4½				
Spey/Hendk	18	+	3½				

■ Troubled developer cannot pay bond interest ■ Loan syndicate forecloses

O&Y asks lenders for extra funds

By Bernard Simon in Montreal and Alan Friedman in New York

OLYMPIA & York, the troubled property developer, wants its lenders to provide extra funds for its Canadian operations before paying C$17m (US$14m) in overdue interest on a series of publicly traded bonds secured by Toronto's tallest office building.

It also emerged yesterday that bankers in a loan syndicate led by JP Morgan have decided to foreclose on a US$160m O&Y loan made last year. The foreclosure would be the first seizure of O&Y assets since the restructuring of the Canadian property group's debt began.

Canadian banks have yet to respond to O&Y's request to draw down the remaining US$130m of a US$240m facility.

O&Y says that without these funds, it is unable to pay interest due on C$325m in bonds secured by the 72-storey First Canadian Place. It has also failed to retire about C$150m in commercial paper secured by the nearby Exchange Tower.

Interest on the bonds came due last week, but under the bond covenants, O&Y has grace periods which expire tomorrow. O&Y says it has made a compromise proposal to the bondholders' trustee, Royal Trust.

Bondholders representing almost three-quarters of the amount outstanding are threatening to seize rents from the building and possibly the property itself if payment is not made by tomorrow.

Separately, the JP Morgan syndicate of banks was upset several weeks ago when O&Y began to offer what the banks considered preferential treatment to holders of a Eurobond on which O&Y failed to make a $62m interest payment last month.

The collateral for both the JP Morgan-led loan and the Eurobond included parts of an office tower in O&Y's World Financial Center development in lower Manhattan.

However, cash flow from the Manhattan property was deemed by bankers to have been assigned to bondholders in a way that ignored the bankers' interests.

The JP Morgan-led creditors are planning to foreclose on some interest rate swaps with Dai Ichi Kangyo Bank. An auction of the swaps is expected to raise between US$10m and US$20m.

● O&Y yesterday ended the second day of its fight to stave off a demand for US$240m in the High Court in London, Reuter reports.

The appeal is over the timing of the payment owed by O&Y to Morgan Stanley, the US investment bank. The hearing will continue today.

Ratners to take extra charge of £53m

By John Thornhill in London

RATNERS GROUP, the troubled jewellery chain, is finalising plans for a sweeping restructuring of its operations and announced yesterday it would take an extra £53m ($93.8m) exceptional charge this year to cover the anticipated costs, bringing the total to £98m.

The company made the announcement after disclosing its plans to bankers while renegotiating its credit lines.

Additional costs are also likely to be incurred in rationalising Ratners' US businesses.

Ratners stressed its financial position was not in jeopardy and denied the review might lead to the departure of Mr Gerald Ratner, chief executive.

Ratners' announcement was made after the close of the London market. The company's shares closed ½p higher at 19½p giving it a market value of £55.9m. In January, after a disastrous Christmas trading period, Ratners announced it would take an exceptional charge of £45m to cover rationalisation costs.

The company intends to close its Colindale warehouse and concentrate UK distribution at one site in Birmingham.

Further exceptional costs are expected to relate to stock write-downs both in its jewellery chains such as Ratners, H. Samuel, and Ernest Jones, and its Salisburys bags shops.

Analysts speculated that up to 200 of Ratners' 2,000 outlets might also be earmarked for closure. Although the tarnished Ratners chain may be heavily rationalised it is understood that it is unlikely to be phased out.

Further details of the restructuring will be released when Ratners reports its financial results for the year to February 1 in a few weeks although a date has not been set. Analysts suggested there was now added reason to strengthen the balance sheet although no fund-raising exercises were likely to precede the annual results.

"This is only likely to increase the likelihood of some kind of capital restructuring at the expense of ordinary shareholders," said Mr Quintin Price, analyst at stockbrokers James Capel.

Ratners is not denying reports it is in talks to dispose of its Watches of Switzerland chain although anticipated losses on its disposal are likely to have been considered as an extraordinary charge.

The awesome power of a Triple-A

Richard Waters on the impact of the credit rating agencies on the financial markets

On Church Street in Manhattan, in a building sandwiched between City Hall and the twin towers of the World Trade Centre, a small group of people met recently to decide on a matter of vital importance to a bank on the other side of the Atlantic. The question: should Swiss Bank Corporation, one of the three mighty and secretive Swiss banks, remain one of the world's tiny band of top-rated financial institutions?

The meeting took place at the offices of Moody's Investors Service, which, alongside Standard & Poor's, is one of only two credit rating agencies with worldwide recognition.

Among those present were Mr Ken Pinkes, responsible for the 42 analysts in Moody's financial institutions group, and Mr Don Noe, head of the agency's international side. With them was Mr Tom McGuire, head of all Moody's corporate ratings.

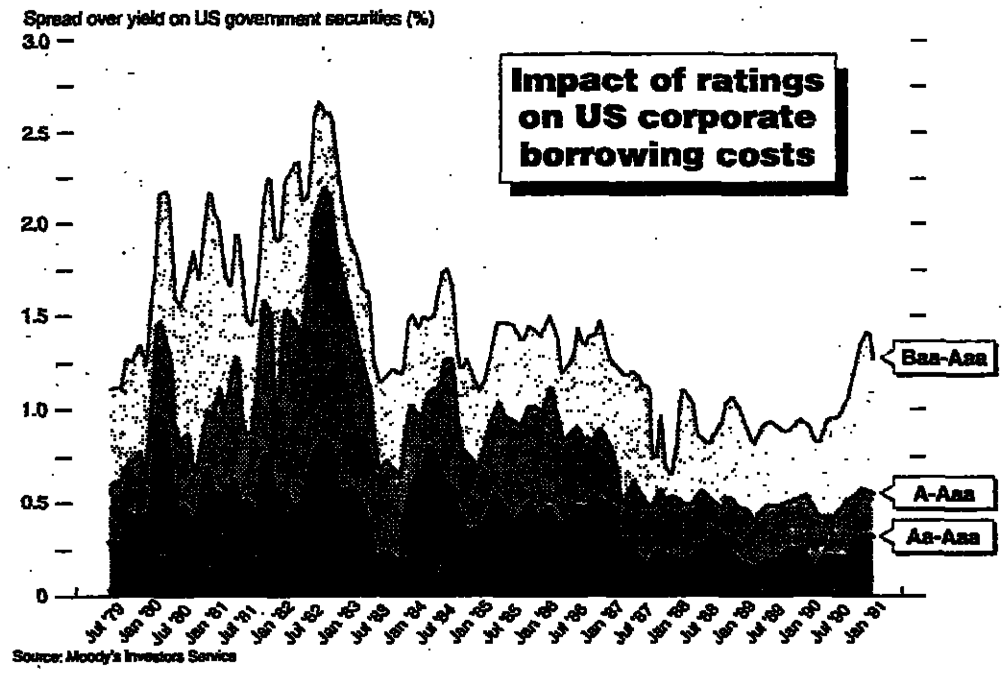
Together, they represent one of the most powerful groups in the international financial markets. Their judgments on the standing of banks and other entities around the world determine how much it costs companies and governments to borrow money.

In the event, the meeting decided to back the judgment of its young analyst, Mr John Kriz, a banking specialist who has been with Moody's for seven years. His view: that SBC should lose its cherished triple-A rating. The men on Church Street had reached a similar decision weeks before about Crédit Suisse. That leaves only two European banks – Deutsche Bank and Union Bank of Switzerland – with an undisputed triple-A seal of approval.

The Moody's decision, announced on Tuesday, comes in the week that rival S&P decided to confirm its triple-A rating of all three big Swiss banks. The differences in the two agencies' views are stark. According to Moody's, there has been a "recent material deterioration" in SBC's loan book. S&P thought otherwise. "Loan and asset quality are sound," it said.

This difference of view is important because both have had access to information hidden from investors. In the case of the Swiss banks, this includes details of their hidden reserves.

As a result, the financial markets follow their judgments almost slavishly. Lower-rated borrowers pay higher interest rates in the debt markets. As the chart shows, this is particularly true during recessions, when concern about credit quality becomes most acute. When the agencies disagree, the markets feel uncertain. Investors and other financial institutions are left to guess at what has happened. "I just wonder if Moody's has discovered some undisclosed problem in their [SBC's] loan book," said the head of credit at one large bank in London.



Source: Moody's Investors Service

A less sinister explanation is the heavy subjective element that enters all ratings decisions. Both Moody's and S&P have well-established methods for assessing a company's financial health, and S&P even publishes guidelines of how financial ratios affect a company's rating.

S&P is widely regarded as being more scientific in its approach to ratings, relying heavily on the results of intensive number-crunching, while Moody's is said to take a broader view of a company and its environment. In practice, though, both rely ultimately on the judgments of their analysts.

Not everyone is happy about their power. Bond market professionals complain that agencies react too late to factors which affect a company's credit standing. Naturally enough, companies which receive poor ratings complain bitterly, often adding that, being based in the US, the two global agencies simply don't understand non-US businesses.

Concern about their power has percolated into the US political arena. Congressman John Dingell, chairman of the powerful House energy and commerce committee, is pressing for regulatory oversight of their activities. The agencies, along with four other smaller companies, enjoy the privilege of recognition from the US Securities and Exchange Commission, giving their ratings powerful standing. Yet the SEC does not vet the agencies at all.

Similar concerns could migrate to Europe. French and UK regulators already officially recognise several rating agencies.

The EC is about to do the same: its proposed directive on the capital backing needed by securities companies, to be agreed by the end of next month, explicitly recognises the ratings of bonds and other debt market securities.

The EC's recognition of rating agencies is likely to give another push to attempts to develop European-based companies with the power to rival the global giants of the business. IBCA, a London-based agency and one of the six recognised in the US, has established a strong reputation around the world.

Bertelsmann, the German media group, is now considering taking a majority stake in a new venture being planned by a powerful group of German banks and companies. "It could fit in with our range of activities and make sense for us," the company said yesterday. If it decides to act, Bertelsmann will enter a field dominated by publishing groups – McGraw Hill, which owns S&P, and Dun & Bradstreet, owner of Moody's. Only companies which are distant from the financial institutions, such as media groups, are generally considered to have the independence to run a rating agency. It could be that only Bertelsmann has the muscle to challenge US control of the business.

Audi eyes North America as site for new car plant

By Andrew Fisher in Munich

AUDI, the up-market subsidiary of Volkswagen motor group, is looking at the possibility of building a car plant in North America, where its sales are recovering after several difficult years.

Mr Ferdinand Piëch, Audi chief executive who takes over as head of VW next year, said yesterday Audi was evaluating sites in Mexico, the US, or Canada to produce cars from the mid-1990s. VW already has a plant in Mexico which it has modernised to serve the US market.

Audi's efforts to set up a transatlantic base are in line with Mercedes-Benz and BMW, its main German rivals. Mercedes, owned by the Daimler-Benz group, will begin small-scale assembly of car kits in Mexico next year. BMW is also looking at likely US production sites, with a decision expected soon.

Audi, whose net profits jumped 30 per cent last year to DM370m ($224m) on a turnover rise of 22 per cent to DM14.8bn, has suffered in the US from allegations that its cars accelerated without warning. The low value of the dollar against the D-Mark has also had an impact.

But with new models priced competitively in the US at levels near those of Japanese cars, Audi's sales in the US rose 41 per cent to 5,100 cars in the first four months of 1992. Total sales in this period were 22 per cent higher at 186,200 units, with turnover up 20 per cent to DM5.8bn.

The company said profits should show a further increase this year, with turnover expected to reach DM16.2bn. But Mr Piëch repeated his warning that European producers would have to move fast to cut costs and improve efficiency in the face of the competitive threat from Japan.

Audi's search for a North American site, which Mr Piëch said should be completed by the end of 1993, is part of its strategy to produce more cheaply, speed up new model development, and streamline production methods and purchasing policies.

It already produces cars in China at a rate which will increase to 30,000 a year in 1995 and has an assembly operation in South Africa. Mr Piëch said savings of up to DM100m could be made by more efficient buying of components, including more sourcing from abroad. Audi also intended to make annual savings of about DM200m in overhead costs.

GPA flotation valued at $800m

By Roland Rudd in London

GPA will today announce the flotation of 40m shares in the world's largest aircraft leasing group, which is likely to value the sale at around $800m, almost half that originally envisaged.

The group's earlier hopes for a $1.5bn flotation were scaled back because of lack of demand in Japan and fatigue in the US equities market inundated with issues.

The pathfinder prospectus, published today, shows that the group plans to issue 28m new shares while selling 12m of the 95m existing shares at a price of between $20 and $25.

However, advisers to the group have been told by the banks distributing the shares in Europe that they cannot sell the shares for more than $20 and have therefor argued for an eventual price range of $18 to $23. The final price will be determined by market conditions at the time of the sale in mid-June.

One adviser said: "The shares are likely to go for around $20 valuing the sale at $800m. It is possible that they could go for less. But given the crisis in the airline industry it is still a tribute to GPA's managerial skills."

While most of GPA's existing shareholders have agreed not to sell more than 20 per cent of their shares for a year from today – when the year-end results are announced – some shareholders are still opposed to any such compulsory lock-up agreement.

As of yesterday evening some Japanese investors which bought much of their stock at $32, including Nippon Life and Kawazaki, had declined to sign a lock-up agreement.

GPA's advisers, which include Schroders in the UK, Merrill Lynch and Goldman Sachs in the US, and Nomura in Japan as global co-ordinator, hope to announce this morning that about 80 per cent of shareholders have agreed to a lock-up agreement.

Mr Maurice Foley, GPA chief executive, has warned that anything less than 85 per cent could jeopardise the float.

GPA, is however, pleased that most shareholders who bought cheaply have agreed to a lock-up agreement.

Many Irish institutions have also refused to sign a formal lock-up agreement although they have written to the company saying they do not intend to sell more than 20 per cent of the shares in the first year.

Lloyds warned of delay in integrating Midland assets

By David Owen in London

SENIOR TORY MPs yesterday warned Lloyds Bank it may be prevented from integrating Midland fully for at least two years if its bid for its fellow UK clearing bank is successful.

The warning came at a private meeting at London's Horseguards Hotel with six senior Conservative backbenchers, including two former ministers.

The delay could arise because of the need for a private Act of parliament to transfer assets and liabilities from one bank to another. "Lloyds needs to take account of the fact it might be necessary for them to run Midland as a subsidiary for two years or more," according to one MP.

Yesterday's meeting came against a background of increased lobbying at Westminster by both Lloyds and Hongkong and Shanghai Banking Corporation, its rival for Midland.

As more MPs began to take sides, a total of 10 from both leading parties signed up in support of an early-day motion backing Hongkong's offer on the grounds that a takeover by Lloyds would reduce competition.

Meanwhile, Mr William Purves, Hongkong Bank chairman, was scheduled to address the Tory backbench finance committee yesterday evening. Sir Jeremy Morse, his counterpart at Lloyds, has agreed to do the same on Tuesday.

Lloyds advisers do not expect that the time of a private bill's passage through parliament would present a problem. They say the bank would not want to effect the transfer of assets immediately after a takeover. The requirement would not preclude the achievement of synergies by other means, they say.

MPs present at yesterday's meeting with Sir Jeremy and Mr Brian Pitman, Lloyds chief executive, included Mr Peter Brooke, the former Northern Ireland secretary, and Mr Tim Renton, former arts minister and chief whip.

Other issues discussed included the effect of a Lloyds takeover on competition in the corporate banking sector, and the question of how best to address the differing regulatory requirements applying to domestic and cross-border bids.

According to one account, Mr Pitman argued "forcefully" that Britain was over-banked.

Sainsbury overtakes M and S

By Maggie Urry in London

J. SAINSBURY, the British supermarket group, has overtaken Marks and Spencer as the most profitable UK retailer, announcing pre-tax profits of £628m ($1.11bn) for the year to March 14, a rise of 21.2 per cent. The group's shares rose 20p to 459p on the news.

Lord Sainsbury, chairman and chief executive – who confirmed that he will retire in November on his 65th birthday – said that when he became chairman in 1969, M and S made profits nine times those of Sainsbury.

Lord Sainsbury, who will become the group's president, said that over the past 20 years the compound growth rate of profits was 23 per cent a year.

He said the 1991-92 figures represented a "very good year's performance".

The group's share of the retail market for food, drink, toiletries, confectionery, tobacco and newspapers had risen from 10 per cent to 10.4 per cent, a greater increase than that achieved by Tesco or Safeway.

Group sales for the year were 12.2 per cent higher at £9.2bn, and operating profits rose 14.1 per cent to £667.7m.

Following the £489m rights issue last June there was interest receivable of £12.7m (payable £35.6m), with the rights money accounting for £33m of the improvement. The group is setting aside £49.4m for profit sharing among 74,000 of the staff.

Before property items costing £4.2m, pre-tax profits were 25 per cent higher at £632.2m. Fully diluted earnings per share, before the property items, rose 17 per cent to 25.43p and a final dividend of 6.35p gives a total of 8.75p, an increase of 20.4 per cent.

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Novo Nordisk profits surge 38%

By Hilary Barnes in Copenhagen

NOVO NORDISK, the Danish pharmaceutical and industrial enzymes group, increased first quarter net profit by 38 per cent to DKr324m ($51m) from DKr234m.

Sales were up by 20 per cent to DKr2,664m from DKr2,218m in the first quarter of last year.

Pre-tax profit was 33 per cent higher, rising from DKr354m to DKr470m. Earnings per share increased by 18 per cent from DKr7.41m to DKr8.74m.

Novo Nordisk warned that sales and profits would not rise as fast in the rest of the year. First quarter results were affected by the fact that some important customers took delivery of shipments earlier than expected. Sales were also boosted by currency factors.

The company expects to achieve at least 15 per cent growth in pre-tax profits, in line with its long-term earnings objective. The group's capital expenditure will increase strongly from DKr1.3bn to about DKr2bn, mainly with the aim of increasing production capacity internationally.

Europe's computer champion on the ropes

Alan Cane examines the reasons behind the struggle by SNI, the Siemens/Nixdorf partnership, to return to profitability

Hopes that in the creation of Siemens Nixdorf Information Systems (SNI) Germany – and Europe – might have a computer champion able to hold its own with the cream of the US and Japanese manufacturers have taken a battering over the past 18 months.

Formed in late 1990 through the merger of Siemens' computer division with Nixdorf Computer, the fallen star of German information technology, the new company had expected to return an operating profit by the end of 1991.

Earlier this year, however, Mr Hans-Dieter Wiedig, the company's chief executive, warned that SNI will still be in the red at the end of its current financial year, which ends in September, despite healthy improvements in sales. Its ability to cut its losses, moreover, will remain hostage to improvements in the general economic situation, he said.

However, many people believe that SNI can still form the nucleus of a Europe-owned computer industry, and Siemens is committed to the company, arguing that data processing is a core technology in electronics. Mr Wiedig, underlines the position: "We want to return to the black as soon as possible, but if in two or three years we have not done that, we will not sell the business."

Siemens acquired Nixdorf two years ago to save the ailing minicomputer manufacturer from financial collapse. Failing to anticipate the sudden overall downturn in computer sales, Nixdorf's revenues slipped quickly out of line with expenses. In the year prior to the takeover, losses amounted to just over DM1bn.

Siemens, on the other hand, is the powerhouse of European electronics, a company even the mighty International Business Machines feels comfortable with as a partner in semiconductor research; its computer group, focusing on the needs of large companies, made a profit of DM700m ($432m) in 1990.

Furthermore, Siemens has deep pockets and, contrary to rumours that the marriage was a shotgun affair, was eager to take advantage of Nixdorf's international marketing network and its contacts with smaller companies. The new company, with 50,000 employees and revenues in excess of DM12bn, is the world's eighth largest. Its product line includes mainframe computers, mid-range systems, personal computers and workstations and it spends some 14 per cent of revenues on research and development. It has excellent opportunities to open up new markets in the east of Germany and in eastern Europe.

So why have expectations of an early return to profitability been so comprehensively dashed? Mr Wiedig points to three factors working against the immediate success of the new company.

First, although it was not immediately apparent at the time, SNI was born at the beginning of the worst year in modern computing history, when aggregate results for the world's 10 top companies showed both reduced revenues and losses. "It is important to carry out mergers when economic conditions are positive," Mr Wiedig says, arguing that sales growth creates an aura of success which helps to weld the company together.

Second, there was a significant cultural difference between the two partners. Siemens had specialised in building data processing systems for large customers while Nixdorf's expertise lay in developing solutions to the computing problems of small and medium customers.

Hans-Dieter Wiedig: SNI still in the red this year

This gap was not helped by feelings of resentment on the Siemens side that the performance of the new company was prejudiced by Nixdorf's continuing losses, or bewilderment from former Nixdorf employees who found it difficult to come to terms with their reduced status in the German computing hierarchy.

Third, the business procedures and computing systems used by the two companies were very different, leading, in the first months at any rate, to lost and delayed orders.

"It took time to bring our internal data processing together," Mr Wiedig says. "Data processing systems make a company more productive, but in the two companies there were 200 different systems. Now we have created a lot of data processing bridges." It may be a further three years before complete compatibility is established.

"Every procedure had to be newly created by combining elements from the two partners. It was difficult and with the industry in a poor state, people became disillusioned. They started enthusiastically, but then reality struck home."

"That phase is now over. There is still some merging of mental attitudes, but for most employees, that should be complete by the end of the year."

The measures SNI is taking to restore profitability differ little from those of its leading competitors. They include the reduction of 4,000 jobs, or 8 per cent of the workforce, between June 1991 and September this year, together with a reduction in manufacturing capacity, rationalisation in production and cost cutting. The aim is to save some DM600m annually, while halving the DM781m loss recorded in 1991.

In the first quarter of the current year, sales rose 26 per cent to DM3.8bn while orders rose 14 per cent to DM3.7bn. The results are encouraging for those who believe that Europe should maintain a strong manufacturing presence in the computer industry, among them Mr Wiedig who argues that if Europe is to remain competitive, it has to retain key skills including semiconductor technology and data processing.

"At present we are simply inviting Japan to take the lead in all the key technologies but if we change our attitude they will change theirs.

"We do have to find new rules for the game; Europe has resources, demand and skills, but it lacks co-ordination." Mr Wiedig is less exact about where the initiative should come from but agrees it could be from Brussels, from the computer industry or from a single company. An example of the kind of co-ordination he seeks is, perhaps, the plan by SNI, Olivetti of Italy and Groupe Bull of France to develop Community-wide computer networks to tackle cross-border issues.

"Europe cannot afford to lose the third industrial revolution," Mr Wiedig avers. "In agriculture, it takes half a day to turn a camping meadow into a potato field; but in information technology the position, once lost, will not be repairable within 10 years."

Tractebel buys into Spanish utility

By Tom Burns in Madrid

TRACTEBEL, Belgium's electricity company, has breached the barriers preventing foreign entry into Spain's utility sector by paying Pta18bn ($178m) for 3 per cent of Iberdrola, the blue chip privately-owned group that controls some 30 per cent of domestic generating capacity.

The acquisition forms part of a global industrial co-operation agreement between the two companies and was engineered by Banco Bilbao Vizcaya (BBV), the Spanish retail bank. BBV has strengthened its position as Iberdrola's chief shareholder by raising its holding by 2.5 per cent to 10 per cent.

The Spanish bank's role in the deal, and its increased investment in Iberdrola, appear to have allayed the fears of the industry ministry which at the end of last year blocked a share swap agreement between Tractebel and the domestic utility that would have given each a 5 per cent stake in the other's business.

Mr Claudio Aranzadi, the industry minister, had conditioned that agreement to the creation of a strong domestic shareholder block in Iberdrola for the latter's equity is widely spread while Tractebel is 40 per cent owned by Société Générale de Belgique.

Banesto bids for Sanson stake

CORPORACION Banesto, the industrial arm of the Banesto banking group, announced a Pta12.1bn ($119m) offer for the 40 per cent of Sanson, a large Catalan cement producer, that it does not already control, writes Peter Bruce in Madrid.

The Banesto bid follows hard on the heels of two others: Ciments Français, through its Spanish affiliate Financiera y Minera, is bidding for the rest of Cementos Rezola, in the Basque country, which it does not control and Portland Navarra is bidding for 10 per cent of the Cantabrian producer, Cementos Alfa, in order to control it.

With its Pta10,000 a share bid for the rest of Sanson offering a premium of 31.6 per cent on the stock when trading was suspended in Madrid yesterday, the bid seems certain to succeed, analysts said.

Sega agrees to pay $43m in US patent settlement

By Robert Thomson in Tokyo

SEGA Enterprises, the Japanese video game maker, has agreed to pay $43m to settle a patent dispute with a US inventor. The agreement is the second large US patent payout by a Japanese technology company in recent weeks.

Sega, through its subsidiary, Sega of America, was to fight a $33m Californian court award last month to the inventor, Mr Jan Coyle. However the company decided that the potential financial and public relations costs of an appeal outweighed the likely benefits of the action.

The dispute is over colour image-display technology used in video games, on which two other makers, Nintendo of Japan and Atari of the US, have already reached settlements with Mr Coyle.

Sega and Sega of America will share the two-part payment, $23m of which will be delivered next Monday, with the remainder due by August 17, when the patent on the technology expires.

Until the court ruling, Sega had celebrated dramatic growth in sales, which doubled in the year to the end of March to an estimated Y213bn ($1.60bn).

The company is forecasting a pre-tax profit of Y33.4bn, also double the amount of fiscal 1990.

Mr Hayao Nakayama, president and the architect of the Sega's rise to international prominence, had condemned the US jury system for allowing "amateurs" to decide on complex technical issues.

"We have concerns about the jury's level of understanding. This is a rather simple case and it is clear that we should be okay. We had certainly taken professional advice, and our professional told us we would win," Mr Nakayama said last month.

The company's decision to settle follows a similar agreement by Minolta, the Japanese camera-maker, which agreed to pay $127.5m to Honeywell, the US technology company, after a court ruled it had infringed patents for autofocus technology.

TWA and American redraft hub slot terms

By Nikki Tait in New York

TRANS World Airlines, the bankrupt US carrier owned by Mr Carl Icahn, has renegotiated a deal with American Airlines, the much larger Dallas-based carrier. It involves the sale of TWA's landing slots and gates at Chicago's O'Hare airport.

The deal was originally part of a larger asset sale package agreed between the two airlines in late 1990. The Chicago slots and gates were to be sold by TWA for $70m, and the airline said it would shift operations to Midway Airport, Chicago's second airport.

Under the new arrangements, the sale price for the 40 landing slots and three gates comprises a $500m zero-coupon note payable in monthly instalments over 20 years. TWA is still talking of moving to Midway. However, under the new deal, it also retains the right to use one of the gates. Neither American nor TWA had any immediate explanation for the changed structure of the deal.

TWA, whose operating losses in the first quarter of this year were almost $100m, has faced opposition to previous asset sales transactions in the bankruptcy court – notably from the Pension Benefit Guaranty Corporation, the federal agency which has argued that sale proceeds should be used first to repair TWA's pension plan deficit.

The new agreement is subject to various closing conditions.

Beer division bolsters SA Breweries

By Philip Gawith in Johannesburg

A STRONG performance from the beer division of South African Breweries (SAB) helped the consumer goods group overcome severe recession and record improved earnings in the year to the end of March.

Mr Meyer Kahn, executive chairman, described economic conditions in South Africa during the year as the worst in 50 years. He said he was "relieved" at the group's performance, given the current environment.

Turnover rose 10 per cent to R17.7bn ($6.2bn). Operating profit rose 5 per cent to R1.82bn, while attributable profit was up 10 per cent at R779m – significantly higher than analysts' predictions of flat earnings growth.

The share of attributable profits from the beer division rose to 60 per cent, or R465m, a 16 per cent increase over 1991. Profit from other interests rose by 2 per cent to R314m.

Although there was negligible volume growth in the beer division – for the first time since the 1983-1985 period – Mr Kahn said it was a "formidable performance," given the decline in consumer spending.

He attributed the continued growth to efforts to keep beer prices competitive against other consumer goods. He said price increases in recent years have been held to 80 per cent of the inflation rate.

Mr Kahn said the beer division's performance reflected relative resistance of beverage sales during an economic downturn compared with durables such as furniture and textiles, in which the group has large interests.

He said private consumption expenditures in South Africa had declined 5 per cent during the year, reflecting the "parlous financial condition" of most consumers, while the "turbulent" socio-political environment had also undermined fragile consumer confidence.

Mr Kahn said the level of real economic activity had declined in all the group's main retail areas. Earnings dropped 37 per cent at supermarket chain OK Bazaars; by 35 per cent at retailer Amrel; and by 35 per cent at furniture company Afcol.

Edgars, the fashion, footwear and apparel group, lifted earnings by 5 per cent.

Mr Kahn said beverage exports had almost doubled in the past two years. He said SAB would continue to focus on exports, but he anticipated an average 5 per cent annual sales growth in the domestic market. Earnings from foreign operations were about 10 per cent of the total.

Looking ahead, Mr Kahn said that although he believed the recession had hit bottom, he saw little meaningful economic improvement before the first quarter of 1993. He predicted an earnings increase for 1992-1993 similar to that of the current year.

Earnings per share increased by 10 per cent to 290 cents, with the dividend up by a similar margin to 130 cents. A scrip alternative was offered.

Campbell Soup up strongly

By Nikki Tait

STRONG volume gains in its core soups business helped Campbell Soup, the US food group, to report after-tax profits of $91.5m in the three months to April 26.

This represents a 20 per cent improvement on the $76.4m seen in the same period a year earlier. Sales were up marginally, by 3 per cent, to $1.54bn.

In the Campbell North America division, operating profits rose 9 per cent overall to $155.7m, the company said. Soup volumes were up 11 per cent, helped by an acquisition. Strong volume performances were registered in V8 juices and in Prego spaghetti sauces. However, frozen food sales fell sharply, as fierce price competition took its toll.

The biscuit and bakery business reported an 11 per cent advance in operating profits. Campbell International saw a decline from $11.7m to $8.9m.

On the international side, sales from continuing businesses were up by 3 per cent, excluding the effect of unfavourable exchange rates.

Brewing side helps Molson out of red

By Robert Gibbens in Montreal

MOLSON, the diversified Canadian group, has returned to the black in the year to the end of March, buoyed by solid performances in its brewing and special chemicals businesses.

The group reported a profit of C$126.2m (US$106.00), or C$2.25 a share, for the year, against a loss of C$39m, or 72 cents, after special charges a year earlier. Earnings for the 1991-1992 year were in line with analysts' forecasts.

The 1990-1991 charges covered full provision for Molson's equity investment in Australian-based International Brewing Holdings, equal to C$2.93 a share. Excluding the provision, the group realised a profit of C$118.5m, or C$2.21 a share.

Revenues in the current year were C$2.9bn against C$2.5bn.

Brewing and special chemicals provided the thrust in fiscal 1991-1992. The brewery business's operating profit rose 7 per cent to C$172.8m, reflecting the effects of the rationalisation programme. The improvement came even though overall industry sales declined in Canada.

Molson now has almost 52 per cent of the domestic market. US sales rose 2.1 per cent and accounted for 19 per cent of the US imported beer market.

Diversey, the speciality chemicals concern, saw operating profit jump 62 per cent to C$75.5m on sales of C$1.2bn. The upturn reflected the integration of DuBois Chemicals, acquired last April, and an improved market share in the US.

Although sales at the building materials retailing subsidiary improved, operating profit dipped 28 per cent to C$21m. The outlook is better for the current year.

Du Pont may sell electrical connector unit

By Alan Friedman

DU PONT, the leading US chemicals company which last month agreed to buy the nylon business of Imperial Chemical Industries of the UK, yesterday said it may try to sell its electrical connector division.

The business, which employs 3,200 people and has annual revenues of more than $400m, is to be hived off as a wholly owned subsidiary so that shares can be offered to the public.

Du Pont indicated that the decision to sell shares would be made later in the year. The connector business itself is described by the company as "moderately profitable".

In a separate development, Du Pont said it would cut 275 jobs in its computer division to reduce costs as the latest step in its plan to slash costs by $1bn by the end of the year.

Judge to review Apple copyright decision

By Louise Kehoe in San Francisco

APPLE Computer's $5.5bn copyright infringement suit against Microsoft and Hewlett-Packard, the US computer companies, took an unexpected turn this week when a federal judge in San Francisco agreed to reconsider his decision to dismiss most of Apple's arguments in the closely watched case.

Apple filed suit in 1988, charging that Microsoft's Windows program and HP's NewWave software violated copyrights on the screen displays of Apple's Macintosh personal computers.

Last month Judge Vaughn Walker rejected Apple's contention that the overall "look and feel" of the computer displays should be compared in order to determine whether its copyrights have been infringed.

Instead, the judge compared elements of the displays and ruled that most were not original to Apple or were covered by a prior licensing agreement between Apple and Microsoft.

However, the judge has now reluctantly agreed to Apple's request that he review his decision. He said that he was "inclined to reject the motion for reconsideration out of hand". Nonetheless, recognising the importance of the case to the entire computer industry, he granted Apple's request.

However lawyers for Microsoft and HP said that they were not concerned by the judge's decision. "This is just a stay of execution," said one of HP's attorneys.

MGM-Pathe seeks Orion release link

MGM-Pathe Communications has made a non-binding proposal to distribute Orion Pictures' unreleased motion pictures and its library products, AP-DJ reports from California.

MGM said it would make an advance under a distribution agreement and provide a line of credit for print and advertising expenses.

It said its proposal contained an option for it to purchase the film assets of Orion.

Terms of the MGM proposal were not disclosed.

Although Orion, which last December filed for Chapter 11 bankruptcy protection from creditors, has 10 films ready for release, it has lacked the funds to do it.

An agreement with Orion would give MGM-Pathe films to send through its existing distribution pipeline. MGM-Pathe needs more films to release because its prolonged legal and financial problems have halted production.

MGM said that the proposal, if accepted, would effectively benefit MGM's distribution infrastructure and make the most of the value of the Orion library and also the unreleased motion pictures.

MGM-Pathe is principally owned by Crédit Lyonnais following the bank's recent foreclosure on MGM's stock.

Daiwa Bank may bail out Yanmar Diesel

By Emiko Terazono in Tokyo

DAIWA Bank, a Japanese commercial bank, is considering a plan to shore up the finances of Yanmar Diesel group, led by the leading Japanese diesel engine maker. The group faces big losses on its securities investments because of the sharp fall in the Tokyo stock market.

Yanmar said it had unrealised losses of Y50bn ($376m) at its two finance subsidiaries. The group has asked Daiwa and other leading commercial banks such as Sanwa Bank, Sumitomo Bank and Fuji Bank, for cheap loans. Bank loans to Yanmar's two affiliates total over Y110bn.

The move comes at a time when many Japanese companies, which rushed to invest in the bull market of the late 1980s, are experiencing problems. An increasing number of companies are expected to turn to banks for support.

A spate of company rescues is expected to erode bank profit margins. Kleinwort Benson in Tokyo expects city banks' profits to suffer in the next three to four years because of problem loans of up to Y25,000bn. Kleinwort reckons 30 to 50 per cent of such loans may be unrecoverable.

Toyoda Auto Loom tumbles 20% pre-tax

By Stefan Wagstyl in Tokyo

TOYODA Automatic Loom Works, a leading Japanese machinery-maker and the original company of the Toyota Motor group, yesterday reported its first fall in annual pre-tax profits in five years.

The figure fell 20.3 per cent in the year to March, to Y24.1bn ($181.20m), as margins were squeezed by rising costs. Sales growth, meanwhile, was hit by the slowdown in industrial investment. Sales were flat at Y583.4bn.

Sales fell 10.6 per cent in textile machinery; 12 per cent in forklift trucks; and 17.4 per cent in parts for car air-conditioners. Car-related business, including assembly work carried out under contract for Toyota, increased 9.8 per cent.

The company said it saved Y4bn through rationalisation, but suffered a Y2bn foreign exchange loss, a Y4bn increase in labour costs, and a Y3.4bn rise in other costs. It also saw a Y1.6bn drop in non-operating profit.

● **Toyoda Machine Works**, a leading machine tool maker and also a Toyota group company, reported a 75.3 per cent plunge in pre-tax profits, to Y2.6bn, on a sales decline of 2.4 per cent to Y174.6bn.

Brascan results down heavily in first quarter

By Robert Gibbens

BRASCAN, a key management holding company controlled by the Bronfman family of Toronto, forecasts that stronger commodity markets would bring some recovery in earnings this year.

However, the company, which owns 49 per cent of Noranda, Canada's biggest resource group, earned C$7.3m (US$6.13m), or 24 cents a share, in the first quarter, down 37 per cent from a year earlier. In all of 1991, it lost C$18m, or 60 cents, against profit of C$80m, or 40 cents a share.

Mr Jack Cockwell, president, told Brascan's annual meeting that better metal and lumber prices would favour Noranda later this year. However, recovery in other sectors may be slow, he warned. The company is to retain its dividend of C$1.04 a common share.

Mr Cockwell told the meeting the company would not bid for Union Gas, one of Ontario's two gas distributors.

Central Guaranty clears hurdle in disposal plan

By Robert Gibbens

CENTRAL Guaranty Trust, the Canadian banking concern and a key company in the troubled Central Capital financial services group, won shareholder approval to sell two thirds of its business, including assets of C$7bn (US$5.80bn) and 97 bank branches.

National Bank of Canada plans to buy 48 Central Guaranty branches in Quebec and the eastern provinces, while Canada Trust, controlled by Imasco, would acquire 49 branches in Ontario and western Canada.

Each would pick up C$3.5bn assets and matching liabilities.

The company is confident of winning regulatory approval from the federal government.

Proceeds of the sale will go to shore up Central Guaranty's capital base. The remaining third of the business, in southern Ontario, includes 61 branches and C$5bn assets.

If the federal government refuses to approve the deal, the whole of Central Guaranty would be back in play.

Fletcher subsidiary sold

FLETCHER Challenge, the New Zealand-based forestry and resources group, has sold Crown Packaging, part of its wholly-owned Canadian subsidiary Crown Forest Industries, to United Packaging of Canada, AP-DJ reports from Auckland. The sale price has not been disclosed.

Fletcher aims to sell around NZ$750m ($400m) of assets in its fiscal year ending June 30 so it can achieve a targeted debt-to-equity ratio of 50 per cent. That ratio stood at 52.5 per cent in June 1991, when the company's term debt stood at NZ$7.94bn.

The group's 72 per cent-owned Fletcher Challenge Canada arm has also been selling assets. In December, it sold its 45 per cent stake in pulp and lumber producer Donhue-St. Felicien for C$120m ($100m) It also sold two sawmills in British Columbia.

Net income slips to $4.4m at Berlitz

By Karen Zagor in New York

BERLITZ, the US language instruction company, has turned in first-quarter net income of $4.4m, or 23 cents a share, against $5.9m, or 15 cents, a year earlier.

Operating income in the quarter fell to $4.4m from $7m, while sales rose to $68.3m from $64.8m. The company attributed the decline to economic slowdown in Japan and Europe and continued expenses related to the expansion of its translation business.

Macmillan, the US publishing subsidiary of Maxwell Communication Corporation (MCC) owned 56 per cent of Berlitz shares. The ownership of the stake is the subject of litigation.

Berlitz's interest income from affiliates fell $3.9m to $1.7m, reflecting payment defaults of the notes from MCC and some MCC affiliates in the 1991 fourth quarter. MCC has filed for protection from creditors under Chapter 11 of the Federal bankruptcy code.

Berlitz reiterated that preferred stock dividends have been suspended and are not expected to be paid in the foreseeable future. In the 1991 first quarter, the preferred stock dividend reduced net income available to common shareholders by $3.1m.

Pearlstine to leave Wall St Journal

MR Norman Pearlstine, executive editor of The Wall Street Journal and its managing editor from 1983 to 1991, is to resign from Dow Jones at the end of June, AP-DJ reports from New York.

He plans to start a company that will invest and engage in a variety of media activities.

He will be succeeded in overall responsibility for The Wall Street Journal's news department by Mr Paul Steiger, 49, the newspaper's managing editor. Steiger was also named a vice-president of the Journal and a member of the Dow Jones management committee, positions held by Mr Pearlstine.

Mr Pearlstine will continue over the next year to serve as a consultant to SmartMoney, Dow Jones's joint-venture magazine with Hearst, and will also be a consultant to Dow Jones on book and television projects in which he has been involved.

Peru steps up campaign to sell airline

By Sally Bowen in Lima

PERU has moved forward to August the sale of Aeroperu, the state airline, according to Admiral Dante Matellini, the carrier's president.

The government has accelerated its privatisation programme and placed a $50m price tag on the airline. Several large international carriers – including Iberia, Continental and Singapore Airlines – have expressed interest.

Two firm bids have been submitted, one of them involving the company's pilots and possibly an outside airline. The other is from a consortium of Taca (Transportes Aereos de CentroAmerica) and a Peruvian transport group headed by entrepreneur Mr Rodriguez Banda.

The consortium is offering around $25m cash plus further investment of between $100m and $150m in a new fleet. Under this proposal, the government would probably retain a percentage of the shares temporarily, and sell them later on the local stock exchange.

Aeroperu was independently valued at $54m six months ago; its routes account for around half that. Its eight aircraft, only five of which are operational, are worth some $15m. Other assets include a site at Lima's Jorge Chavez airport and administrative buildings.

The company is presently running up an operating loss of $1.5m a month, mainly due to overstaffing. It plans to cut its workforce of 1,800 by around half. The government has come up with $6m to cover redundancy payments for 800.

French table plan to boost share buying

By William Dawkins in Paris

THE FRENCH government yesterday tabled hotly awaited plans to encourage private individuals to buy more shares, so as to channel more of the nation's savings to its undercapitalised companies.

Mr Michel Sapin, the finance minister, presented the scheme, christened *plan d'épargne personnel en actions* (*Pep*) at yesterday's cabinet meeting. Parliament will be asked for approval in the autumn so that investors can start placing cash in the current tax year.

The scheme would allow individuals to put FFr600,000, or couples to invest FFr1.2m, in shares for a minimum of six years or a maximum of eight, and to receive dividends and capital gains tax free. Shares in both quoted and unquoted French companies are permitted, as are unit trusts, known as *Sicavs* in France, so long as they are invested in equities. Shares in *Peps* can be sold within the time limit so long as the proceeds are immediately reinvested.

The idea was launched by Mr Pierre Bérégovoy, the prime minister, while he was finance minister, as a way to reinforce French companies' equity bases, which a series of surveys have shown to be weak by their main competitors' standards.

Peps are also designed to entice savers to invest in partial privatisations, which Mr Michel Charasse, the budget minister, has estimated will raise around FFr10bn for the government this year. Estimates of total demand for the new *Peps* vary from FFr20bn to FFr40bn per year.

The scheme follows a similar model to the *plan d'épargne populaire*, which was introduced two years ago and offers tax breaks for investments in bonds. It has raised FFr240bn to date.

However, the equities *Pep* is likely to disappoint stock market professionals, who had been urging more generous tax benefits. Critics also point out that it does nothing to solve the wider problem of the very small number of company pension funds in France.

Pierre Bérégovoy: launched idea when finance minister

Steady growth at Aegon shown in opening quarter

By Ronald van de Krol in Amsterdam

AEGON, the Netherlands' second-largest insurer, said yesterday that it posted a 12.3 per cent rise in operating profit in the first quarter of 1992, although growth in net profit was held to just 1.5 per cent because of reduced gains on the sale of shares and property investments.

Net profit was slightly higher at Fl 193m ($104m) compared with Fl 190.2m a year earlier. Operating profit, however, saw more marked growth to Fl 187.7m from Fl 167.1m.

This reflected a 8.75 per cent rise in operating earnings in its core life-insurance business, as well as strong improvements in non-life insurance and miscellaneous activities. Operating profit from health and accident insurance eased to Fl 11m from Fl 12m.

Total turnover rose by 13.2 per cent to Fl 4.43bn. The company said turnover and earnings in the US were considerably higher, but it gave no details.

Zurich Insurance lifts income and payout

By Ian Rodger in Zurich

ZURICH INSURANCE said both its life and non-life businesses contributed to an 11.7 per cent rise in net income in 1991 to SFr431.8m ($284.00m).

The group is raising its dividends and launching a one-for-eight rights issue to raise SFr310m. The voting and bearer shares and participation certificates will then be split, so as to double the number of shares and PCs issued.

Gross premiums rose 13.2 per cent to SFr19.2bn last year, with acquisitions contributing about a third of the growth and the weakening of the Swiss franc another third. Investment income rose 15.5 per cent to SFr3.7bn with total investments amounting to SFr59bn at the end of the year compared with SFr50bn.

Consolidated capital and surplus rose 15 per cent to SFr6.9bn before appropriation of the 1991 profit.

The directors propose dividends on the old equity base of registered and bearer shares of SFr70, compared with SFr66, and on the participation certificates SFr35 compared with SFr33.

The rights will cost around SFr1,100 for each SFr100 par value registered and bearer share, and SFr550 for each SFr50 participation certificate.

Most of the proceeds of the issue will be applied to doubling the par value of the shares and PCs. They will then be split two-for-one.

Zurich has also decided to remove its ban on registering foreign owners of its registered shares, but has established in its place a 3 per cent limit on any individual holding of the registered shares.

Mr Rolf Hänggi, deputy chief executive, said the transactions were aimed at improving liquidity of the group's equity and providing shareholders an additional tax efficient return on their investment.

The funds were being raised now because stock market conditions were favourable. They would be used to finance current business.

Investors puzzle over German borrowing

Public sector funding could place a strain on the bond market, writes **Simon London**

GERMANY'S public sector finances are again stirring the interest of investors and analysts anxious to know how much the government will borrow from the bond market this year.

Mr Theo Waigel, German finance minister, said last week that federal government borrowing is likely to fall to DM40bn in 1993 from DM45bn ($27.2bn) this year, largely because tax revenues have been higher than anticipated. He has also proposed an austerity programme aimed at reducing government borrowing.

Borrowing by "off balance sheet" government agencies set up to promote the economic reform of eastern Germany – such as the Treuhand and European Recovery Programme (ERP) – stays high.

Analysts' estimates of the total German public sector deficit this year, including all government-backed funds and agencies, range from DM190bn to DM210bn, up from around DM170bn in 1991.

How much will be financed in the bond market remains an open question. For example, the Treuhand, set up to manage state-owned east German industry ahead of privatisation, has so far funded only in short-term markets. But it may start long-term bond issuance in the second half of this year, competing directly for funds with the federal government.

Equally, the ERP, set up to help with economic development in eastern Germany, is borrowing for the first time this year, aiming to raise DM25bn.

Mr Giorgio Radaelli, international economist at Lehman Brothers, noted that bonds account for 56 per cent of all outstanding German public sector debt, broadly defined. Using this rule of thumb, the market could be asked to absorb DM110bn new bunds, Unity bonds and quasi-government debt instruments this year.

Others are less pessimistic. Mr Stefan Schneider, analyst at Nomura Research Institute, estimated total public sector bond market borrowing of around DM80bn.

But to this must be added refinancing of outstanding debt, running at DM90bn according to government figures.

Hence total bond issuance is likely to reach at least DM160bn, possibly as high as DM240bn, once borrowing by the post office and the state-owned rail system is included.

Whatever the eventual outcome, borrowing on this scale could place a strain on the bond market. There are already signs of resistance, especially when market conditions are weak.

Last week, for example, the ERP launched a debut DM5bn 10-year bond issue, but only around half the paper could be sold into a weak market.

Analysts are split over whether government borrowing will depress bund prices for the rest of the year.

Among the more optimistic forecasts, Mr Schneider predicted 10-year bund yields of around 7.5 per cent by the summer, from close to 8 per cent yesterday, as the government's deficit reduction package and better inflation figures improve sentiment.

The impact of large-scale public sector borrowing will probably depend on the broader economic outlook for inflation and interest rates.

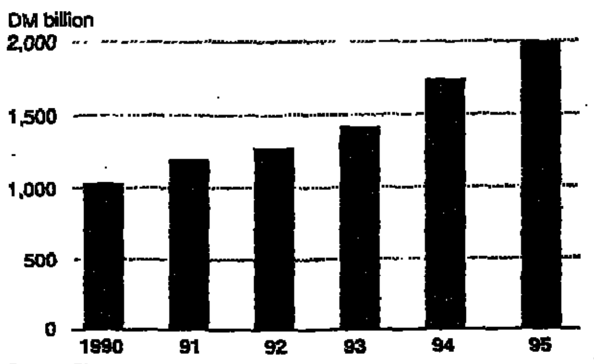
"In a bull market supply can be totally benign – in fact it can help to improve liquidity," commented Mr Klaus Baader, bund market analysts at UBS Phillips & Drew.

Over the medium term, most observers now agree that Germany's total public sector debt outstanding will balloon from DM1,170bn in 1991 to around DM2,000bn by 1995.

This will push the debt up to at least 55 per cent of GNP, and possibly as high as 70 per cent, depending on assumptions about growth.

Even at the lower end of expectations, this is only a whisker away from the 60 per cent limit set in the Maastricht treaty for countries which can proceed to the next stage of European monetary union.

German public sector debt



Source: NRI

SEB's long-term debt rating downgraded

By Robert Taylor in Stockholm

THE LONG-TERM debt rating of Skandinaviska Enskilda Banken, Sweden's largest commercial bank, was reduced yesterday by Moody's Investors Service to Aa-3 from Aa-2 in a further blow to its prestige.

The New York rating agency said the bank "will experience ongoing asset quality stress, particularly in its domestic loan portfolio". SEB's earnings growth would be limited, it added.

However, the rating agency noted that SEB is currently exhibiting strong capital ratios. It said that the bank's ratings for short-term deposit obligations and commercial paper was not under review and remained at Prime-1, although the rating on SEB's long-term deposit obligations has also been reduced to Aa-3.

Moody's action is a further sign of the continuing troubles at SEB which recorded a 30 per cent drop in operating profit last year following SKr4.76bn ($813.7m) of credit loss provisions and a SKr500m loss on the disposal of a 28.2 per cent share option in Skandia, the insurance group it failed to take over.

The credit re-rating will add further pressures on SEB as it awaits impatiently the arrival of its third chief executive in three years – Mr Bjorn Svedberg, the former chief executive of Ericsson, the Swedish telecommunications group. He takes over from Mr Bo Ramfors in September

Last week's move by the Swedish state to nationalise the whole of Nordbanken, the country's loss-making second largest commercial bank, in a rescue operation has added to the pressures on SEB and the rest of the private sector.

Mr Curt Olsson, SEB chairman, complained that while he accepted the Swedish government had no real alternative but to take over Nordbanken, in doing so it distorted competition in the banking system.

Moody's also downgraded the long-term debt and deposit obligation ratings of Swedbank, the central bank for Sweden's savings banks, from Aa-2 to A1.

Moody's places Bell Canada bonds under review

By Robert Gibbens in Montreal

MOODY'S Investors Service in New York has put Bell Canada's long-term debt under review because of the possibility that the federal government may approve competition in the domestic long distance market.

The regulatory decision is expected in Ottawa in mid-June although it could possibly be delayed until the autumn.

Bell Canada, part of the BCE group, is the country's biggest telecommunications company and has an effective monopoly on the domestic market.

Bell Canada has C$5bn in long-term debt outstanding, including first mortgage bonds and unsecured debentures. The issues are rated double A-1 and double A-2, or the highest possible level for a corporation.

Fondiaria's profits rise to L68.7bn

By Haig Simonian in Milan

FONDIARIA, the holding company of one of Italy's biggest insurance groups, had net profits of L68.7bn ($55.2m) in 1991, the first full year in the group's current form.

Over the past year, Fondiaria has confirmed its position as one of Italy's most dynamic insurance companies, with the acquisition of the Latina group of companies controlled by Mr Carlo De Benedetti and the purchase last month of a 20 per cent stake in Aachener und Münchener Beteiligungs, Germany's second largest insurer.

Consolidated group profit figures will not be available until next month. But Fondiaria's group premiums rose 13 per cent to L5,021bn last year, making it Italy's third biggest private sector insurance group.

INTERNATIONAL CAPITAL MARKETS

Norwegian bank sector cuts losses in quarter

HAVING reached record levels last year, Norway's troubled bank sector cut its losses by almost half in the first quarter of 1992, AP-DJ reports from Stockholm.

According to a survey by the Norwegian banking association, Norway's commercial banks made a combined net loss of NKr889m in the three months, down from a NKr1.67bn loss in the same quarter a year earlier.

The improvement stemmed from cost-cutting at the operating level as well as reduced provisions to cover losses on loans and write-downs. Improved interest net income also helped.

Operating costs were reduced to NKr2.68bn in the quarter from NKr2.87bn a year earlier, while loan losses by commercial banks shrank to NKr2.07bn from NKr2.54bn.

While the loan loss figures represented a 19 per cent reduction, loan losses remained the main obstacle to profitability in the Norwegian bank sector, analysts said.

They also warned against placing too much emphasis on first-quarter results.

Treasuries ahead despite strong retail sales

By Karen Zagor in New York and Richard Waters in London

US Treasury prices wavered yesterday morning following the release of two sets of economic data for April, but by mid-session the market had moved slightly higher.

In late trading, the Treasury's 30-year bond was up $\frac{1}{16}$ at 101¾, yielding 7.84 per cent. The two-year note was ⅛ higher with a yield of 5.09 per cent.

GOVERNMENT BONDS

The Federal Reserve entered the open market to arrange overnight system repurchase agreements when Fed funds were trading at 3⅞ per cent. The operation, which adds liquidity to the banking system, was more aggressive than expected and left some players perplexed about the Fed's intentions for monetary policy.

Shorter-dated maturities firmed as Fed funds fell as low as 3¼ per cent in the afternoon before picking up to 4 per cent in late trading. The Fed's perceived target for the rate is 3¾ per cent.

Expectations of a near-term easing of monetary policy were dampened by the release of an unexpectedly strong retail sales report for April. Retail sales climbed 0.9 per cent, well above the 0.4 per cent increase widely expected. However, the March figure was revised to show a 1 per cent decline from a previously-reported fall of 0.4 per cent.

There was no real surprise from April's consumer price index, which rose 0.2 per cent.

■ LONGER-dated UK government bonds gained about ¼ of a point yesterday in thin trading as investors focused their attention on the publication this Friday of the latest retail price index figures.

Market estimates put the April year-on-year headline inflation rate at anything from 4.2 per cent to 5 per cent, compared with the 4 per cent rise recorded in March. The difficulty of assessing the phasing out of the community charge (or poll tax) and the effects of VAT changes accounts for the wide discrepancy in views.

Whatever the outcome, the latest RPI number may be a poor guide to the future – and Mr Norman Lamont, the chancellor, yesterday again stressed his view that inflation will continue to fall in the UK.

Yesterday's rally, helped by the firmness of sterling, saw the yield on 10-year gilts fall to within 133 basis points of their German equivalents, down from about 140 basis points a week ago and about their lows for the year so far. The 9¾ per cent gilt due 2002 yielded 9.09 per cent by the end of the day, down from 9.16 per cent the day before. Of longer-dated issues, the yield on the 9 per cent bonds due 2008 fell from 9.03 per cent to 8.89 per cent on the day.

On Liffe, the long gilt futures contract rose from 96$\frac{11}{32}$ to 99$\frac{1}{32}$ in moderate trade.

Friday is expected to bring the latest announcement of further supply to the gilt market, with the market expecting anything up to £1bn in the form of a tap stock.

■ WHILE other European bond markets moved around it, the cash market for German government bonds remained little changed.

Most investors continued to await the outcome of wage negotiations involving IG Metall, the 4m-strong engineering union. Union leaders threatened a strike ballot next week – thought all the more likely given the outcome of German public sector workers' strike.

On Liffe bund futures gained nearly 20 basis points, rising to 87.34 in late trading.

■ A SHARP appreciation in the yen drove a sharp rally in Japanese government bonds yesterday. As the yen strengthened to 129.93 against the dollar, a gain of some Y1.5, bond yields tightened. The yield on the bond No 129 closed at just under 5.5 per cent, down from 5.6 per cent.

The market returned to its levels of about a month ago, before tumbling share prices and concern about the weakness of the banks drove yields up to over 5.7 per cent.

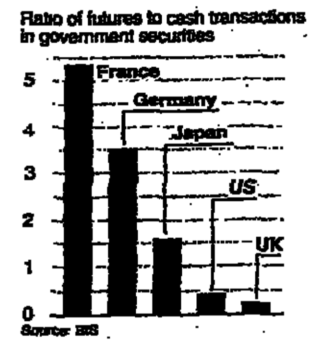
■ FRENCH government bonds advanced strongly against German bonds yesterday morning on the back of a strong currency. However, profit taking took OATs back to their opening levels by the end of the day.

Having closed yesterday on a yield some 61 basis points above German bunds, 10-year French government OATs closed to about 57 points before retreating to yesterday's level. The 8.5 per cent OAT maturing in 2002 closed unchanged on a yield of 8.57 per cent.

Traders were said to have switched to shorter-dated paper in the hope of a further interest rate cut on the back of the powerful performance of the franc. However, most analysts continue to believe that a rate cut to below German levels remains unlikely.

Trading in government bond futures

Ratio of futures to cash transactions in government securities



Source: BIS

The French and German government bond futures markets are the most active when compared with the level of trading in the underlying cash markets, according to the Bank for International Settlements. Lower transaction costs and greater liquidity are its explanation for the substitution of futures trading for cash market activity in these countries. Turnover in Italian bond futures accounted for one tenth of cash market trading.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	105.0724	+0.747	9.23	9.33	9.76
BELGIUM		9.000	06/01	101.2000	-0.050	8.61	8.64	8.56
CANADA *		8.500	04/02	99.8300	-0.150	8.53	8.74	8.65
DENMARK		9.000	11/00	101.4200	+0.200	8.56	8.61	8.63
FRANCE	BTAN	8.500	03/97	99.6607	-	8.73	8.81	8.78
	OAT	8.500	11/02	99.4600	-0.130	8.56	8.67	8.65
GERMANY		8.000	01/02	100.1800	+0.060	7.96	7.98	7.89
ITALY		12.000	02/02	98.8400	+0.110	12.20†	12.24	12.30
JAPAN	No 119	4.800	06/99	95.2311	+0.451	5.75	5.92	5.83
	No 129	6.400	03/00	105.0230	+0.421	5.49	5.63	5.49
NETHERLANDS		8.250	02/02	99.5700	+0.010	8.30	8.33	8.26
SPAIN		11.300	01/02	102.4000	+0.050	10.58	10.60	10.54
UK GILTS		10.000	11/96	102-26	+6/32	9.20	9.28	9.39
		9.750	08/02	104-09	+13/32	9.10	9.20	9.15
		9.000	10/08	100-08	+18/32	8.97	9.04	9.02
US TREASURY *		7.500	11/01	101-04	+5/32	7.33	7.53	7.32
		8.000	11/21	101-22	+4/32	7.85	8.01	7.88
ECU (French Govt)		8.500	03/02	99.4600	0.360	8.57	8.73	8.80

London closing, *denotes New York closing. Yields: Local market standard
† Gross (including withholding tax at 12.5 per cent payable by non-residents)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

SKF bond seeks to raise up to Ecu145.3m

By Sara Webb

SKF, the Swedish roller bearings group, is raising up to Ecu145.3m ($114.9m) with a convertible bond issue aimed at international investors.

The Swedish group will be the first European company to use liquid yield option notes (known as LYONs), the zero coupon convertible bonds developed by Merrill Lynch. LYONs have been used by several companies in the US – including Disney and Eastman Kodak – since their launch in 1985.

The 10-year bonds will be issued at a price of Ecu426.22, presenting a discount of 57.378 per cent on the face value of the bond. Each note, with a principal amount of Ecu1,000, can be converted into 24.9 unrestricted SKF series B shares.

The issue is being managed by Merrill Lynch, and part of it is expected to be placed privately in the US.

SKF said it may raise up to Ecu145.3m, which would correspond to 8.5m unrestricted series B shares if the entire issue is converted.

The money will be used to refinance some of the company's debt. SKF increased its debt by about SKr2bn when it acquired part of Ovako, a speciality steel producer which has plants in Finland and Sweden.

Moody's Investors Service has given the SKF LYONs issue a Baa1 senior debt rating in view of SKF's "moderately leveraged capital structure and Moody's expectations that returns and cash flows are likely to remain under pressure in the intermediate term".

Moody's points out that while SKF has a strong business position in bearings, its operating earnings are expected to recover only gradually because of losses at Ovako and the expected "sluggish economic upturn" in the automotive and capital goods markets in the US and Europe.

Du Pont's $300m issue eases shortage of high-rated deals

By Sara Webb

THE international bond market saw a handful of mainly dollar-denominated deals yesterday, with Du Pont and City of Stockholm launching two medium-sized issues.

Du Pont, the US chemicals group, is issuing a $300m, seven-year bond with a coupon of 7½ per cent which is due to break syndicate today.

INTERNATIONAL BONDS

Swiss Bank Corporation, the lead manager, expects fairly strong demand for the paper given the shortage of dollar-denominated issues from triple-A rated borrowers recently.

Triple-A names have been unable to raise funds at sub-Libor costs recently, forcing investors who want to pick up a decent yield to focus more on well-known, but lower-rated issuers instead.

The Du Pont issue was priced to yield 34 basis points over the seven-year US treasury bonds, which was considered a fairly tight pricing by some market participants.

City of Stockholm launched a $325m floating rate note with a coupon of $\frac{1}{16}$ below three-month Libor.

IBM International Finance, the large computer company's financing arm which is used to support sales, is launching an Ecu 150m two-year bond with a coupon of 9.25 per cent.

Paribas, the lead manager, reported demand for short-dated Ecu paper and said that the issue is aimed at retail and small institutional investors.

The deal is the first bond issue from IBM since the company had its credit rating downgraded from Aaa to Aa2 by Moody's Investors Service, so the market was keen to see whether this had any effect on IBM's cost of funds.

IBM is keen to maintain the same cost of funding and Paribas claimed yesterday that the company was borrowing on broadly similar terms to those commanded in the recent past, helped by better-than-expected first-quarter profits. IBM still has a triple-A rating from S&P.

In the D-Mark sector of the market, Corfin, the Czech leasing company, announced a DM25m private placement – the first private Czech company to issue a foreign currency bond. The bonds carry a coupon of 11½ per cent and were priced at Libor plus 260 basis points and the issue is guaranteed by Ceskoslovenska Obchodni Banka, the Czech foreign trade bank.

Daiwa Europe, the lead manager, said most of the bonds have been placed mainly with German investors although some bonds were sold to the Japanese.

Corfin, which leases cars, trains and small aircraft, is borrowing in the international markets for the first time but it is expected to return from time to time since it needs to fund its car purchases in D-Mark.

Sumitomo Corporation, the Japanese group, launched a Y50bn five-year bond with a coupon of three-month Libor in the first three months, turning to 6 per cent thereafter. Daiwa Europe, lead manager, said most of the deal was placed with Japanese investors.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
City of Stockholm(c)‡†	325	(c)	100	1999	35/23.75bp	SBC
E.I.Du Pont de Nemours(a)†	300	7½	101.82	1999	1⅞/1.725	SBC
Monte Dei Paschi(e)‡†	60	(e)	100	1994	-	Lehman Brothers Intl.
Sumitomo Bk.California(b)‡†	40	(b)	100	2002	⅛	Sumitomo Fin. Intl
STERLING						
Friendly Hotels(d)†	14	11⅛	99.13	2015	-	NatWest Cap.Mkts
ECU's						
IBM Intl. Fin.NV(a)†	150	9¼	100.975	1994	1.125/1.075	Paribas Cap Mkts
CANADIAN DOLLARS						
Rabobank Nederland(a)†	125	8½	101.40	1996	1⅝/⅛	Bankers Trust
D-MARKS						
Corfin A.S of Czech.(a)**†	25	11½	99⅝	1995	-	Daiwa Europe
YEN						
Sumitomo Corp(f)†	50bn	(f)	101.80	1997	1.875/1.70	Daiwa Europe

**Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable b) Coupon pays 6 month Libor plus 50bp for first 5 years then pays 6 month Libor plus 75bp c) Coupon pays $\frac{1}{16}$ below 3 month Libor. Callable on 15/6/1997 at par. d) Coupon payable semi-annually. Fees undisclosed. e) Coupon pays 15 bp above 6 month Libor. Coupon payable semi-annually. Fees undisclosed. f) Coupon pays 3 month Libor for first 3 months, then pays a fixed coupon of 6%.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on May 13

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield	OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWEDEN 5 5/8 95	20000	100⅝	101⅛	+⅛	5.36						
WORLD BANK 6 3/4 00	50000	106⅛	106⅝	+¼	5.71						

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day = Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread = Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn = The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	73	1	5
Other Fixed Interest	11	0	6
Commercial, Industrial	399	269	784
Financial & Property	174	108	510
Oil & Gas	18	18	52
Plantations	0	0	9
Mines	24	38	85
Others	29	72	29
Totals	728	506	1,480

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amt. Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price	+or-	Net Div.	Times Covd.	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. u Forecast or estimated annualised dividend rate, cover based on previous year's earnings. x Ex-dividend. F Dividend and yield based on prospectus or other official estimates for 1992-93. H Dividend and yield based on prospectus or other official estimates for 1991. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

LIFFE EQUITY OPTIONS

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Alld Lyons (*643)	550	97	109	115	3½	7	10
	600	50	70	79	12	18	23
	650	21	42	50	36	42	46
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Utd. Biscuits (*409)	390	32	43	48	6	11	14
	420	14	24	32	19	25	28
Unilever (*943)	900	67	92	110	10	19	24
	950	35	62	77	30	37	43

Option		Calls May	Calls Aug	Calls Nov	Puts May	Puts Aug	Puts Nov
Brit. Aero (*365)	360	12	31	38	8	20	27
	390	4	16	24	24	36	47

Option		Calls May	Calls Aug	Calls Nov	Puts May	Puts Aug	Puts Nov
BAA (*635)	600	40	55	73	2	13	19
	650	7	24	43	22	35	42
BAT Inds	800	15	42	53	14	36	45
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	280	6	14	21	18	24	28
British Gas (*256)	240	19	27	30½	2½	4½	8½
	260	6	14	18½	9	12½	17
Dixons (*249)	240	20	23	32	6	13	16
	260	7	13	22	16	24	27
Eurotunnel (*370)	360	32	50	63	13	25	32
	390	16	34	51	28	38	47

Option		Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
Glaxo (*755)	750	39	68	90	28	50	65
	800	18	45	67	60	78	90
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Jun	4	8	14	29	53	94	136	186
Jul	10	16	27	42	64	102	140	190
Aug	18	27	40	56	77	111	145	191
Dec †	-	53	-	80	-	133	-	197

May 13 Total Contracts 31,759
Calls 15,991 Puts 15,768
FT-SE Index Calls 2,357 Puts 5,686
Euro FT-SE Calls 157 Puts 1,506
Eurotrack 100 Index Calls 0 Puts 0
*Underlying security price. † Long dated expiry months.
Premiums shown are based on middle prices.

TRADITIONAL OPTIONS

- First Dealings May 1
- Last Dealings May 15
- Last Declarations August 6
- For settlement August 17

3-month call rate indications are also shown on this page.

Calls in Acorn Computer, Burton, Dwyer, J. Finlay, Hanson warrants, Lucas warrants, Midland & Scot. Res., Norex, Premier Cons., Perkins Foods, Ratners, Saatchi & Saatchi, Sanderson Murray & Elder, Smith & Nephew, Sketchley and Tesco. Puts in British Steel and BTR. Puts and calls in ASDA, Hanson warrants and Premier Cons.

TRADITIONAL OPTION 3-month call rates

■ INDUSTRIALS	p	Charter Cons.	37	Ladbroke	14	Sears	9	■ OILS	
Allied-Lyons	49	Comm Union	34	Legal & Gen	22	SmKl Bchm A	60	Aviva Pet	25
Amstrad	6½	Courtaulds	39	Lex Service	18	TI	48	BP	20
Astec (BSR)	3	Eurotunnel	29	Lloyds Bank	32	TSB	11½	Burmah Castrol	44
BAT Inds	10	FKI	6	Lonhro	12	Tesco	22	Conroy Pet	7
BOC	53	FNFC	7	Lucas Inds	12½	Thorn EMI	63	Gaelic Res	½
BTR	32	Forte	21	Marks Spencer	27	T & N	11½	Premier Cons	2½
Barclays	26	GKN	30	Midland Bank	30	Unilever	70	Shell	33
Blue Circle	25	Gen Accident	38	NatWest Bank	26	Vickers	13	Tusker Res	½
Boots	39	GEC	15	P & O Dfd	37	Wellcome	80	■ MINES	
Bowater	60	Glaxo	59	Racal Elect	5	■ PROPERTY		RTZ	47
Brit Aerospace	26	Grand Met	35	RHM	18	Brit Land	19		
British Steel	6½	GRE	12	Rank Org	55	Land Sec.	34		
Brit Telecom	24	Hanson	18	Ratners	2½	MEPC	26		
Cadburys	33	ICI	95	Read Intl	44	Mountleigh	1½		

Only unlikely appearance of white knight would affect offer

TI declares £504m Dowty bid final

By Richard Gourlay

TI GROUP, the specialist engineering company, yesterday turned the heat up on bid target Dowty by declaring its £504m offer final.

Mr Christopher Lewinton, TI chairman and chief executive, said that the original 4 for 15 share offer, which values the bid at 186p and its cash alternative of 175p, fully valued Dowty.

By taking the unusual step of making its first offer final, TI is confident that it was pitched high enough to see off potential rival bidders. However, it retains the right to increase its offer in the increasingly unlikely event that a white knight emerges with a rival bid.

Mr Bruce Ralph, chairman of the aerospace and information technology group, said there was nothing new in TI's document, which still presented Dowty shareholders with an offer that was too low.

As part of the defence, which is expected early next week, Dowty is likely to reveal an estimate of profits and earnings for the year ended March 1992.

Stockbrokers have estimated profits between £18.5m and £22m – giving earnings of 4.1p to 5.4p – down from £60.6m in 1991.

Mr Ralph said he was glad the phoney war was over and warned that some analysts might be embarrassed by their low estimates of 1991 earnings.

Christopher Lewinton: believes that Dowty has lost its way after diversifying

Dowty will also try to slow the momentum TI has developed in the three weeks since it launched its hostile bid by focusing its shareholders on the strengths of its future order book and its development programmes.

Late yesterday Dowty also said that Mr Christopher Bunker would no longer be joining in August as finance director from Westland, the helicopter manufacturer where he holds the same position.

In what Mr Ralph called a "humanitarian gesture", Dowty had agreed to Mr Bunker's request not to join Dowty in the middle of a bid.

In his letter to Dowty shareholders yesterday, Mr Lewinton repeated that the Cheltenham-based company had lost its way after diversifying into information technology.

He said he recognised the problem from when he joined TI in 1986 and found that TI – formerly Tube Investments – had diversified from its core businesses into Raleigh bicycles and consumer products.

TI has been refocused and built into an international group. The acquisition of Dowty would provide a third aerospace leg to add to the tubes and seals businesses.

Dowty has two weeks to produce its first defence document and 28 days to convince its shareholders of the strength of its management.

Dowty's shares fell 6p to 181p on news of TI's final offer while TI shares fell 1p to 697p.

Heavy UK losses peg Allied Irish Banks' rise

By Tim Coone in Dublin

HEAVY LOSSES in the commercial mortgage lending business in the UK restricted pre-tax profits growth at Allied Irish Banks, Ireland's leading financial services group, in the year ended March 31 1992.

Profits came to I£185.8m (£168.5m). That represented an increase of 4 per cent on the previous I£178.8m, after allowing for a 2 per cent rise in bad debts provision to I£178.3m (I£174m).

In Ireland and US the divisions both performed well showing strong profits growth – the former was up 9 per cent while the US was 1½ times greater.

The UK division, however, increased its losses from I£4.9m to I£47m which, according to Mr Gerald Scanlan, group chief executive, "was due to a very high bad debt charge resulting from a recession which has been the deepest and most prolonged since the war".

He said 30 per cent of the I£750m UK loan portfolio to the small business sector was presently non-performing; that was a 65 per cent increase on the previous year. The bank specialises in giving commercial property loans to restaurants, pubs and hotels.

"We expect the situation in Britain to remain difficult through the coming year," said Mr Scanlan.

The bank currently had 200 specialist financial staff working with its customers facing difficulties in the UK "to keep them up and running. Our experience has been that it is very difficult to sell a business once the door is shut". The non-performing loans were being handled by the specialist workout unit, while the profitable business had been placed with its 35 branches in the UK which "continued to show a profit last year".

Mr Scanlan said there had been an overhaul of operations in the UK, with lay-offs of 300 out of the 1,400 staff "from all levels from the chief executive down" and which he said would result in the division moving to a "more focused operation". He anticipated pretax profits of I£35m from the UK division "within two years".

Group total assets increased by 2.2 per cent to I£18.2bn (I£17.9bn), and it's Tier 1 capital adequacy ratio, as defined by the Bank of International Settlements, hads remained at 6.6 per cent – that, Mr Scanlan pointed out, was currently better than most of the UK clearing banks.

Earnings per share were 16.1p (15.2p), and the dividend is lifted to 8.25p (7.75p) through a final of 4.65p.

SFO becomes involved as MTM reveals £20.6m pre-tax deficit

By Richard Gourlay

THE SERIOUS Fraud Office has become involved in the investigation into MTM, the specialist chemicals company where the share price collapsed in March leading to the resignation of Mr Richard Lines, founder chairman, and the finance director.

A report by Binder Hamlyn, MTM's auditors, is to be forwarded to the SFO, probably by next week.

Mr Ken Schofield, chief executive, who took over from Mr Lines 10 days ago, said the SFO's position is that it wanted to look at the report following a Stock Exchange insider trading investigation into the company.

The Binder Hamlyn report reveals transactions that were "incorrectly recorded" last year and in 1990 which boosted sales and possibly profits.

During 1991, Mr Lines sold 3.3m shares at over 300p, a price that analysts believe would not have prevailed had the revised figures reported yesterday been available at the time.

Yesterday's long-awaited 1991 results were worse than expected.

On an unaudited basis, pre-tax and pre-exceptional profits for 1991 were £5.14m, down from £9.75m the previous year. This 1990 figure was itself revised down from £13.5m to take account of the questionable transactions.

Mr Schofield said these transactions involved MTM selling chemicals to a bank at the year-end and recording them as sales. He would not say how much similar transactions affected sales and profits last year but said there were "a whole raft of items."

In addition, MTM has taken a £25.7m exceptional item. This included a £17.5m provision to revalue assets to true market value.

As a result, pre-tax losses were £20.6m, down from an adjusted £7.9m on sales of £104m.

The company also incurred an interest charge of £7.39m on debt that ended the year at £85m but which has subsequently grown to £109m. Debt rose partly to reverse £7.1m of sales which were taken last year and should have fallen in 1992.

New chief takes relaxed hold

MR KEN Schofield, the newly-appointed chief executive at MTM, looked surprisingly relaxed yesterday afternoon after unveiling the chemical group's dire and long-awaited results.

One reason for his relaxed state is the knowledge that he can start with a clean sheet and with no responsibility for the present predicament.

That is no bad thing. MTM's stock market problems began in March with a profits warning only days before it was due to announce its results. The auditors, Binder Hamlyn, had problems with the application of some of the accounting standards.

Analysts and the City were reassured, however, that there would be no impact on trading. Five days later , MTM was forced to make a second profits warning, this time suggesting that pre-tax profits would be "significantly" lower than the City's expectation of £23m.

What lay behind the fall appears to have been an inability of Mr Richard Lines, the founder chairman, to accept that the company he had successfully built had a trading problem and would not meet what he had promised shareholders at last year's rights issue.

He had promised profits of £23m on turnover of £125m – a result that would have confirmed the wisdom of launching a £49m rights issue for the £62.5m acquisition of Hardwicke in the US.

The shortfall in profits and turnover was a shock to managers, says Mr Schofield. Management information systems fell apart after August. After that date, the line managers never saw the management accounts. They and non-executive directors were not in a position to question the trading position.

Ken Schofield believes he has sold the banks the bones of his plan to save the company. Paul Abrahams and Richard Gourlay report

"It's difficult when there is a strong, persuasive CEO who is seen to be successful," explained Mr Schofield yesterday. "How do you sign off from success?"

Mr Schofield is also relaxed because he believes that he has sold to the banks the bones of his strategy to save the company. When he has fleshed his ideas out, he expects the banks to extend the credit lines until next January. He insists that the business is essentially sound and there are no rotten apples in the barrel. The main priority will be to reduce indebtedness, from about £106m at present to some £50m.

Some businesses will be sold, admits Mr Schofield. However, he insists that the company is not bleeding money and there is no need for fire-sales.

The company is anxious to obtain good prices for disposals, which cannot be achieved quickly. It was on the speed and scale of disposals that he disagreed with the Postern, the corporate management specialists called in to form a strategy for the group. He says they wanted to sell the group's crown jewels.

Mr Schofield's plan also consists of focusing MTM on three core areas – research, fine chemicals and speciality chemicals. Mr Schofield expects the research side of the business to be a stand-alone operation by the end of the year and cash-neutral for the next 18 months. He also plans to build up larger inventories, so the business can be more responsive to customer needs.

The fine chemicals business, particularly in the US, is also sound, says Mr Schofield. Although some of the businesses were running at only 50 per cent capacity earlier this year, he is confident that they will reach 85 per cent soon.

The speciality chemicals business are highly cash-generative, he says. They require little capital investment, but expertise from qualified staff. He maintains that there has been no outflow of staff since the onset of the group's difficulties. However, he believes there had been a severe lowering of morale, which he expects to deal with by visiting the sites.

"Over 10 working days I've been with the company, I've been dealing almost exclusively with the outside world. I now need to visit some plants."

Mountleigh defers pref dividend

By Vanessa Houlder, Property Correspondent

MOUNTLEIGH, the property and retail company, yesterday underlined its parlous financial state by deferring the £4.3m dividend on its £83m of convertible preference shares.

With debts of more than £500m the company is trying to reach an agreement with its banks and bond holders over a financial restructuring. Matters are likely to come to a head before May 27, when it is due to redeem £40m of Swiss bonds. A further £35m of bonds are due to be redeemed in June.

Its ability to meet those obligations have been damaged by failure to clinch the sale of its Merry Hill shopping centre in the West Midlands to Hammerson, the UK property company, and the O'Connor Group, a US pension fund adviser. The deal, which would have brought in £125m, fell through at the end of last month.

That failure was partly due to the likelihood that the shopping centre was built on contaminated land. The risks of investing in blighted areas have become more prominent because the government is considering bringing in a register of contaminated land.

Mountleigh's negotiations with its creditors are headed by a banker, Mr Steven Gerard, who became chief executive early last month. Mr Gerard, a former senior executive at Citbank, one of Mountleigh's largest lenders, said he aimed to implement a "strategically focused operating and financial plan which will be satisfactory to all creditors".

The announcement that the preference dividends would be deferred was expected by the City and Mountleigh's shares closed at 6¾p, up ½p.

Wescol chief to stand down in board shake-up

By Peggy Hollinger

The chairman of Wescol, the loss-making structural engineer which came to the USM three years ago, is to resign as part of a top-level management shake-up aimed at strengthening the company's board.

Mr John Hicks said yesterday that he wanted to devote more time to other interests. Mr Barry Anysz, a non-executive director, will become acting chairman until a permanent replacement is announced sometime in the next few weeks.

Wescol, which fell into difficulties following the collapse of Rush & Tompkins and two other big debtors, also announced the appointment of two former Tarmac employees – Mr Alan Riddle and Mr David Sutton – as chief executive and business development director respectively.

Mr Riddle said the appointments were not a rescue of the heavily-indebted group. "We are not company doctors," he said. "We see this as a very positive move, adding our skills to those of the existing board."

Crown Communications' French network for sale

By Raymond Snoddy

CROWN Communications, the loss-making commercial radio group which owns LBC, is believed to be trying to sell or find partners for its stake in RFM, the French Radio Network.

Crown officially owns 40 per cent of the RFM network which has 89 radio stations throughout France, but has effective managerial control.

Mr Christopher Chataway, Crown chairman, acknowledges in the annual report for the year to September 1991, published yesterday, that audience figures have yet to reflect the development of RFM.

The group incurred a pre-tax deficit of £7.52m for the year.

Mr Chataway also warns that the group will report another significant loss in the first half of the current year although the trading outlook continues to improve.

Crown's auditors, Price Waterhouse, say they believe there are adequate financial resources available for the foreseeable future.

They auditors note that the Crown directors have recently extended their bank facilities " but in the medium-term expect to effect asset sales and/or other measures to reduce the group's borrowings."

The French stake is Crown's main remaining non-core business.

Price Waterhouse has also qualified how some aspects of the RFM investment is stated in the accounts.

During the year Crown increased its intangible fixed assets from £1.59m to £12.75m.

The auditors added: "In addition, we are unable to determine whether the investment in RFM amounting to £16.04m is fairly stated.

Correction
Cronite stake

AFE, the French engineering company, yesterday said it owned or had agreed to acquire 26.1 per cent of Cronite, the Birmingham engineering company for which it has mounted a £7.3m recommended bid, and had undertakings in respect of a further 3.6 per cent. In yesterday's Financial Times, Mr James Lindsay-German, Cronite's chief executive, mistakenly stated that AFE spoke for 40.8 per cent.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Allied Irish Bks ....fin	4.65♣	July 9	4.25	8.25	7.75
Avon Rubber ....int	5	July 17	5	-	16.5
British Inv Tst ....fin	13	-	13	22.5	22.5
City of Oxford ....fin	1.3†	June 30	1.4625	4.9	4.5
Diploma ....int	2.75	July 3	2.25	-	8.75
Gates (Frank G) ......fin	2.25	July 7	2.75	2.25	2.75
Greenalls ....int	4.84	July 10	4.4	-	11
MTM ....fin	nil	-	3.4	1.37	5.1
Sainsbury (J) ....fin	6.35	July 31	5.25	8.75†	7.35
Scottish Value ....int	0.8	July 7	-	-	-
Yorklyde ....fin	5.7	July 1	5.7	9.7	9.7

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ♣Irish currency.

BP share registration unit moved in £25m deal

By Neil Buckley

BRITISH PETROLEUM is transferring responsibility for its share register to Computer Management Group, the information technology consultants, in a deal worth £25m over the next five years.

The contract is the first to be signed since BP announced last month that it was cutting its corporate staff by 700 as part of a plan to save £415m a year. The package involved 250 redundancies, but BP said it hoped that 400 other employees would find jobs in companies to whom work was contracted out.

All 62 staff in the share registration unit will transfer to CMG, although remaining in BP's Harlow office.

BP said the move ensured that costs could be cut while maintaining standards of service. Its share register is one of the largest and most diverse in the UK, with 550,000 shareholders, quarterly dividends, and 12 employee share schemes worldwide.

CMG has provided a supporting service to BP for more than 25 years. It handles share registration for other companies, including Legal & General and British Airways.

Mr Ron White, UK chairman of CMG said the advent of Taurus, the automated share dealing system being introduced next year in London would increase the need for companies to have efficient and cost-effective share registration services.

Guinness expands in South Africa

By Philip Rawstorne

Guinness has established a subsidiary in South Africa to expand its distribution in the continent's biggest beer market.

From later this year Guinness stout will be brewed and distributed under licence by South African Breweries.

For almost two years, limited distribution in South Africa has been handled through Namibia Breweries, which brews and distributes the product in a number of African markets.

Mr Alfons Walser, managing director of the new subsidiary, said yesterday: "We believe the timing is right for us now to become directly involved in the marketing of the Guinness brand in South Africa."

BICC rights to raise £154m

By Jane Fuller

BICC, the cables and construction group, yesterday launched the first large rights issue since the general election triggered a sharp rise in the stock market.

The FT-SE 100 index has gone up by nearly 12 per cent since April 9. BICC shares had gained 10 per cent before yesterday's announcement of the £154m issue at 285p a share.

The news was not unexpected and BICC's share price advanced 9p to close at 356p.

It was helped by the group's statement that it intended to hold the dividend at 19.25p.

Equity analysts have been expecting a wave of rights issues since the market started to rise, although there is some doubt as to whether the total for this year will match last year's record £9.26bn.

BICC's issue, on a 1-for-5 basis, takes this year's running total over the £1bn mark.

Mr Robin Biggam, chairman, said the money would be used partly to expand the cables businesses in continental Europe and North America and partly to reduce debt.

Negotiations were fairly advanced on one US purchase. The fragmented North American industry, badly affected by recession and price pressures last year, was ripe for regrouping and companies could now be bought relatively cheaply.

On the Continent, BICC had already announced the acquisition of KWO in what used to be East Germany and was considering other purchases.

Mr Biggam estimated that about half the rights issue proceeds would be used for acquisitions this year.

The immediate effect will be to strengthen the balance sheet. December's net debt of £35m has had £90m added to it by the inclusion of Grupo Español General Cable, in which BICC now has a majority stake.

There remains nearly £100m of off-balance sheet debt, mainly associated with a joint property venture at Spitalfields on the edge of the City.

BICC also has £177m of convertible capital bonds which it counted as equity, rather than debt, in arriving at year-end shareholders' funds of £685m.

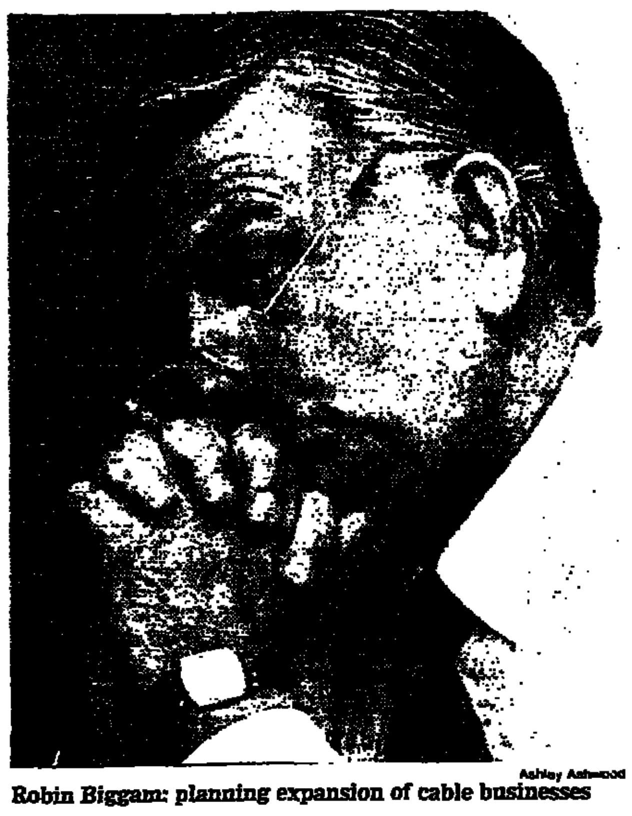
Last year the group, which also owns the Balfour Beatty construction company, suffered a 56 per cent fall in pre-tax profit to £81m after £42m of property write-downs and provisions for losses on the Channel tunnel contract.

The exceptional charges knocked nearly 15p off earnings per share, which at 10.7p fell well short of covering the dividend.

The rights issue will add more than £10m to the dividend bill of £54m, largely paid out of reserves last year, and will aggravate the problem of unrelieved ACT.

On current trading, BICC said there had been no first-quarter improvement in its main markets. However, operating cashflow was up on last year. Some signs of recovery had been detected in the US and the outlook in the UK had become more encouraging, although little impact was expected before next year.

See Lex



Ashley Ashwood

Robin Biggam: planning expansion of cable businesses

Avon Rubber motors ahead 15% to £4m

By Peggy Hollinger

HIGHER PRICES and a shift in the sourcing policies of vehicle manufacturers is benefiting Avon Rubber, the components and tyre manufacturer which yesterday revealed a 15 per cent increase in interim profits from £3.58m to £4.1m.

Mr Tony Mitchard, chief executive, said manufacturers were focusing on longer-term relationships with fewer suppliers. This, and other factors, had helped Avon increase profitability in every division except industrial polymers, which suffered a sharp drop in sales following the end of hostilities in the Middle East.

However, the pre-tax line was also buoyed by a fall in interest charges from £2.51m to £1.91m. Turnover rose by less than 1 per cent to £115m (£114m) for the six months to March 28. The dividend is maintained at 5p, payable from earnings 31 per cent higher at 11.1p (8.5p).

Mr Mitchard said the second half was likely to show further improvement. The benefits of last year's £5.8m charge for reorganisation were coming through and sales were also showing signs of life in the UK and France.

Meanwhile, a decline in defence-related sales hit profits at the industrial polymers division. The operating return plunged 52 per cent to £2.6m on sales 19 per cent lower at £44.7m. The tyre business – which focuses on high performance products for the racing industry – more than doubled profits to £1.8m, helped by higher prices.

● COMMENT

Few had expected that Avon could improve on the windfalls from last year's hostilities in the Middle East. The trick was in bringing debt and interest payments down, offsetting higher depreciation charges. The future looks encouraging for Avon, which is spending more than ever – some £15.5m – on capital expenditure. Also, rationalisation measures promise significant benefits until 1994. All that aside, yesterday's sharp rise in the share price appears to have taken the flavour out of the stock for the moment. The shares closed 24p up at 459p, and look up with events on profit forecasts of £8.5m for 1992. The prospective p/e of 16 times appears expensive in the short term, but the shares are still a long way from the peak of 859p achieved in 1987.

Lower new vehicle sales cut Frank Gates to £1.32m

By Jane Fuller

FRANK G GATES, the east London-based Ford dealer, yesterday announced a 45 per cent drop in 1991 pre-tax profit, from £2.39m to £1.32m, and a dividend cut.

The share price shed 8p to close at 71p.

Turnover fell from £70m to £56.3m. The company said about half of this was caused by the fall in new vehicle sales, with the rest split between used cars and the effect of selling most of the contract hire business in 1990.

Car sales had suffered mainly from the shrinking of the new car market, with a little extra disadvantage from Ford's declining share.

Trading profit fell from £2.3m to £1.34m, mainly because of the slump in new cars. Profits from used cars and parts and servicing were similar to 1990.

As the group had rid itself of £6m borrowings linked to contract hire, interest costs plummeted from £1.21m to £163,000. This meant that the profit figure was about £140,000 up before exceptional gains. In 1990 these amounted to £1.37m because of the disposal.

By the year-end, net debt had grown to £3.5m, about 15 per cent gearing, following investment in a large site at Bishop's Stortford, Hertfordshire.

The group only pays a final dividend and this was cut by 18 per cent to 2.25p, in line with the fall in after-tax profit. The Gates family, other directors and connections own about 56 per cent of the equity.

On a lower tax rate, earnings per share were 4.87p (6.51p).

Sainsbury chairman rejects accusations of high food prices

By Maggie Urry

LORD SAINSBURY, the outgoing chairman of the food retailer, yesterday countered suggestions that UK food prices were high compared with those abroad by saying that the group's return on capital employed, at 21.4 per cent, was similar to that achieved by leading US and French food retailers.

The group's UK food retail operating profit margins rose from 7.7 per cent to 8 per cent in the year to mid-March, higher than those made by retailers outside the UK.

High margins in the UK have led to criticisms that British food retailers are overcharging customers.

Lord Sainsbury said the increased margins were the result of opening larger stores which offered more higher margin goods than the smaller ones.

He said these stores involved heavy capital spending.

Mr David Sainsbury, deputy chairman and Lord Sainsbury's successor, said that group capital expenditure had fallen slightly in the latest financial year to £766m.

He expected it to rise to about £800m in the current year.

After last year's rights issue which raised £489m, gearing had fallen to 17 per cent. It would rise to about 20 per cent in the current year, Mr Sainsbury said, but would then stay at about that level.

Annual pre-tax profits of £628m (£518.2m) came after capitalising £56.5m (£51.4m) of interest.

Lord Sainsbury said that the Sainsbury and Savacentre chains had achieved sales of £7.9bn, a rise of 12.9 per cent, and operating profits of £632.2m, up 17.3 per cent.

During the year, 21 new supermarkets were opened, including the group's first store in Scotland. The sales area of the Sainsbury chain rose by nearly 10 per cent to 7.6m sq ft. No new Savacentres were opened.

Homebase, the group's DIY chain, also increased pro its, by 17.7 per cent to £15.5m on sales 14.7 per cent higher at £257.6m. Lord Sainsbury said Homebase was one of only two of the leading DIY chains to increase profits as the recession had made it a tough market.

In the US, Shaw's, the New England supermarket chain, suffered a sharp drop in profits as recession led to customers trading down. Shaw's operating profits fell by a third in dollar terms but in sterling were 29 per cent lower at £21.4m on sales 7.7 per cent higher at £1bn.

Haverhill Meat Products, which sold its Palethorpes subsidiary in the 1990-91 year for £14m, incurred a loss of £1.4m, compared with a £2.7m profit.

Diploma holds steady at £6.2m despite sales fall

By Peter Pearse

DIPLOMA, the electronics, building components and special steels group, yesterday reported pre-tax profits marginally lower at £6.2m, despite a drop from £71.2m to £61.9m in turnover.

Mr Christopher Thomas, chairman, said that although it had "been a long, hard recession exacerbated by many false dawns", he believed that conditions in the period under review were "worse and more difficult to manage" than in the corresponding six months.

On the building components side, IG Lintels achieved a "marginal improvement" and Mr Thomas said that IG had increased its market share from 25 to 35 per cent in the past 2¼ years.

Profits at Robert Lee, the distributor of plumbing fittings and "as near to the high street as we get", were down by one third in the "worst conditions in 20 years".

Witham's, in the steels division, was "substantially down" though still in the black. It was hit by recession in France, where it has 25 per cent of its turnover, and by low spending in the oil sector.

Mr Thomas said that in electronics 30 per cent of orders were now "design won". Macro had a good first half with sales up 10 per cent and a 25 per cent increase to the bottom line.

Because of Diploma's good cash flow, Mr Thomas said he wanted to re-balance the interim and final dividends: so the interim is lifted to 2.75p (2.25p), payable from earnings of 7.3p (7.5p) per share.

There was an extraordinary charge of £3.7m. Of this, £1.1m related to the loss on the disposal of the ECS stake and an equivalent amount is debited from shareholders' funds. The remaining £2.6m – goodwill which was written off to reserves in the year of acquisition – is now written back.

PUBLIC WORKS LOAN BOARD RATES

Effective May 13

Years	Quota loans* EPT†	A††	maturity§
1			10
Over 1 up to 2	10	10	10
Over 2 up to 3	10	10	9⅞
Over 3 up to 4	9⅞	9⅞	9¾
Over 4 up to 5	9¾	9¾	9¾
Over 5 up to 6	9¾	9¾	9⅞
Over 6 up to 7	9¾	9¾	10
Over 7 up to 8	9¾	9¾	10
Over 8 up to 9	9¾	9⅞	10
Over 9 up to 10	9⅞	9⅞	10⅛
Over 10 up to 15	10	10¼	10⅛
Over 15 up to 25	10¼	10⅛	10⅛
Over 25	10⅛	10⅛	10⅛

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only

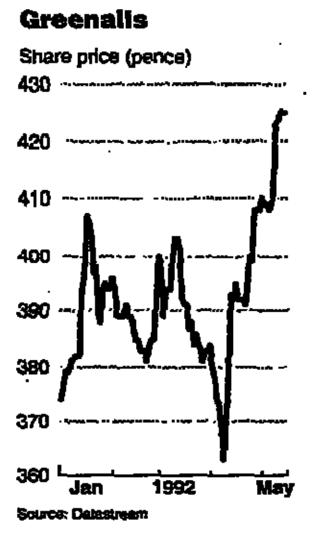
Expanding pub chain outperforms local rivals

Greenalls improves 7% to £26m

By Philip Rawstorne

Lydia van der Meer

Andrew Thomas: business climate remains difficult



Source: Datastream

GREENALLS Group, the Lancashire-based pubs and hotels operator, achieved a 7 per cent increase, to £25.8m, in pre-tax profits for the half year to March 27.

Mr Andrew Thomas, managing director, said the business climate "continues to be difficult. We have not seen any sign of a real upturn in consumer spending."

Trading profits rose from £21.3m to £23.9m on the back of a 5.6 per cent rise in turnover to £238.2m.

Fully diluted earnings rose from 11.7p to 12.5p and the interim dividend is increased to 4.84p – a 10 per cent rise on last time's 4.4p.

In spite of the recession, the group's 1,368 pubs raised operating profits by 7.6 per cent to £20.7m, outperforming the industry in its trading area.

Drinks sales were 3.5 per cent higher though volumes were down overall by nearly 6 per cent.

Food sales grew some 24 per cent, partly reflecting an increase in the number of managed food houses.

Nearly £9m was spent on pub refurbishment, and the 40 pubs acquired from Allied-Lyons for £10.2m at the end of March were expected to boost the estate's second half performance.

Operating profits from the 104 catering inns and restaurants were 42 per cent higher at £3.1m. Another 13 establishments were being developed as part of the division's expansion programme.

Profits from Cellar 5, the off-licence chain, advanced from £1.45m to £1.81m. The operation has yet to feel the full benefits of the 187 Blayney shops bought from Vaux.

The drinks and services division, encompassing amusement machines and drinks distribution and wholesaling, raised profits by 8.6 per cent to £3.42m.

Trading conditions continued difficult for De Vere hotels in the UK. Operating profits declined 11 per cent to £6.08m as occupancy rates fell from 57 per cent to 53 per cent.

Advance bookings for the autumn have been improving, however, and the operation is expected to benefit in the second half from a new hotel at Swindon, and the recently-opened golf hotel in Cheshire.

Losses in the US hotels operation were cut from £959,000 to £677,000.

Profits from the disposal of properties fell from £2.89m to £1.96m, reflecting the group's decision to curtail sales until the market improves.

Net debt stands at £213m, representing 26.6 per cent of shareholders' funds.

Barlo launches conditional I£22m offer for IRG

By Tim Coone in Dublin

BARLO GROUP, the Irish-based radiator manufacturer, yesterday announced an I£21.7m (£19.7m) bid for IRG, a plastic packaging business with manufacturing plants in the Irish Republic, the UK and Belgium.

At current prices, the share-exchange terms of 55 Barlo shares for every 20 IRG ordinary value the latter at 143p, a premium of 6 per cent on the last dealt price and of 50 per cent on the price at April 9, the day prior to Barlo acquiring 14.89 per cent of IRG.

About 35.8m Barlo shares would be issued, representing 32 per cent of the enlarged capital.

Barlo said its offer was conditional on irrevocable commitments being made on a further 15 per cent of IRG shares by 5pm today, which would bring its stake to 29.9 per cent.

The bid is also conditional on the IRG accounts for 1991 showing pre-tax profits "not less than I£1.8m and total borrowings not exceeding I£15m".

IRG has yet to announce those results, but local analysts expect profits of I£2.2m and earnings per share of 12.5p.

Barlo proposes to raise £10m through a placing on the offer being declared unconditional in all respects; an open offer will made to shareholders. This is expected to reduce the estimated I£15m debt of IRG.

Earlier this month Barlo reported a return to profits for the year to March 31 1992, following two years of losses, and despite a continuing recession in the UK construction industry.

This has been largely attributed to the rationalisation carried out by the new management team put together under Mr Tony Mullins, managing director since September 1990.

It is this expertise which Barlo hopes to apply to its target should the bid be successful.

TransTec seeks £24m to expand and cancel debt

By Peter Pearse

TRANSFER Technology Group, formerly Central & Sheerwood and headed by the late Mr Robert Maxwell before reorganisation and the decision to concentrate on specialised engineering, yesterday announced three acquisitions and a £23.9m rights issue.

As well as funding the purchases, the cash call will eliminate group debt currently between £2m and £3m.

BEW (Auto Products), Earby Light Engineers and Raycon Corporation – the companies being acquired – would "contribute significantly to TransTec's planned growth as an important supplier to the automotive and aerospace industries", said Mr Geoffrey Robinson, chairman.

They will cost TransTec a combined £7.65m, plus dividends of £1.8m paid on completion to the vendors of BEW and Earby. TransTec is also assuming borrowings of £9m, resulting in a total bill of about £18.5m.

Up to 6.23m shares will be allotted on a 1-for-2 basis at 400p each, a discount to last night's 485p close, up 2p on the day. Joint underwriters are Charterhouse Bank, the group's advisers, and Credit Lyonnais Laing, broker to the issue.

Consideration for BEW, which is a high volume machinist of aluminium and iron castings, is £4.63m, with £4.58m in cash and the balance as an unsecured loan note; it is a customer of AL Dunn and competitor to Coventry Apex, the two companies in TransTec's automotive division.

Mr Neil Logue, TransTec finance director, said the annual turnovers of BEW and Apex were about £20m and £30m respectively. When brought together, he was looking for a combined figure of about £80m. Although the BEW name would be retained, he said, the company's management would not.

This contrasts with Earby, which is keeping its management. The company, which will cost £2.18m cash, makes high precision components for the aerospace industry and Rolls-Royce in particular. It has no US sales. Mr Logue said the vertical integration of Amchem, TransTec's aerospace subsidiary which has links with General Electric and Pratt & Whitney of the US, into Earby would enable the division to manufacture complete engine blades.

Raycon is a US-based manufacturer of electro-discharge and laser machining systems for both the automotive and aerospace industries. The consideration is $1.5m (£840,000) cash.

NEWS DIGEST

British Inv Trust net assets up

BRITISH Investment Trust, which has total assets of £590m, saw its net asset value rise to 821p per share over the 12 months to March 31.

That represented a 3.1 per cent increase over the 796p at March 31 1991, and compared with falls of 1.8 per cent in the FT-A All-Share Index and 2.5 per cent in the MSCI World Index, said Sir Colin Barker, chairman.

The trust, managed by Edinburgh Fund Managers, has 65 per cent (67 per cent) of its portfolio in the UK, 13 per cent (12 per cent) in Europe, and an unchanged 9 per cent in the US.

Net revenue attributable to ordinary holders came to £13.4m (£16.4m) after tax, minorities and a £1.37m exceptional charge on revaluation of property.

Earnings per share were 21.5p (26.3p) and the dividend for the year is held at 22.5p with an unchanged final of 13p.

A subdivision of shares – from 25p to 5p – is proposed to improve marketability.

Firstland loss cut to £743,000

Firstland Group, formerly Firstland Oil & Gas, incurred a pre-tax loss of £743,000 for the 1991 year.

The figure included an exceptional provision of £301,000 against a disposal of shares in Explaura, the limestone extraction group. Losses for the previous year amounted to £3.39m including exceptionals of £2.8m.

Turnover totalled £393,000 (£563,000) and losses per share emerged at 3.34p (15.42p).

The group, quoted on the USM, recently announced a refinancing package and appointed a new management team. It intends to diversify away from its oil and gas interests and is currently looking at the areas of packaging, distribution and specialist engineering.

Scottish Value Tst assets ahead 21%

Scottish Value Trust, which has 80 per cent of its assets invested in the investment trust sector, reported a net asset value of 59.22p at March 31.

That marked an improvement of 21 per cent over the 48.85p standing six months earlier. At April 30, net asset value had risen to 62.48p, representing a gain of some 33 per cent since relisting on July 25 1991.

Available revenue for the half year to end-March amounted to £191,000. The company, formerly known as Bremner, has changed its year-end and the figure is compared with £70,000 for the six months to September 30 1991.

Earnings per share emerged at 0.82p (0.48p) and the interim dividend is 0.8p.

Needler reduces first quarter loss

Needler Group, a Canadian building materials combine quoted on the USM, reduced its seasonal pre-loss to C$2.93m (£1.38m) for the first quarter of 1992.

In the comparative three months the group incurred a deficit of C$3.48m, but by the end of 1991 had turned in a profit of C$1.74m.

Losses per share for the quarter were 10.4 cents (12.5 cents).

The group produces aggregates, asphalt, concrete block and paving stone, and operates chiefly in the Province of Ontario and New York State.

Guarded optimism at Yorklyde

Yorklyde, the Huddersfield-based woollen and worsted cloth manufacturer, reported profits of £1.52m pre-tax for the 12 months to January 31.

The outcome – down from £1.82m last time – came on turnover ahead 14 per cent to £11.4m (£9.92m). Mr Charles Brook, chairman, said the "satisfactory" result reflected a period of severe recession.

There was guarded optimism of an upturn in trading conditions, although this was likely to be gradual, he said.

Earnings per share dipped from 25.2p to 21.2p. The final dividend is held at 5.7p for a maintained total of 9.7p.

James Wilkes sells offshoot for £1.17m

James Wilkes, the Sheffield-based specialist engineer, has completed the sale of the business and certain assets of its Knightway Air Charter offshoot to Lambson Group for £1.17m cash.

After repaying hire purchase debts of £580,000 on the company's Cessna aircraft, the balance will be used to reduce group borrowings.

Expansion for Ben Priest division

Copal Casting, part of Benjamin Priest, the engineering group, has acquired Wrexham-based Malpas Machine Tool, which designs and builds special purpose machines and also does machining subcontracting.

The price was not disclosed. Mr Mike Barber, Copal's managing director, said it was planned to double Malpas' turnover to about £1.5m in the next three years through investing in new manufacturing technology.

Employment at Malpas will be expanded from 18 to 54 people within three years, helped by a grant from the Welsh Office.

Priest was taken over 15 months ago by International Marine, which is part-owned by Ferruzzi of Italy.

BOARD MEETINGS

TODAY

Interims- API, Burton, Caspen Oil, Grand Metropolitan, Hanson, Tomkinsons

Finals- Bank of Ireland, Eidos, Fine Art Devs, Foster (John), Hartlepools Water, Hartstone, King & Shaxson, London Atlantic Inv Trust, RIT Capital Partners, Smith St Aubyn, Warner Howard, Warnford Invs.

FUTURE DATES

Interims-	
Ashley	May 22
First Leisure	June 22
Kelsey Inds	May 22
RHM	May 20
Finals-	
ACT	May 18
Cape	June 10
Dawson Intl	June 18
Debenham Tewson	June 30
Gerrard & National	May 21
Ivory & Sime	June 22
Johnson, Matthey	June 11
Leigh Interests	June 2
Meyer Intl	June 9

CONTRACTS AND TENDERS

COMMODITIES AND AGRICULTURE

Japan faces civil action over Hirohito coin seizure

By Kenneth Gooding, Mining Correspondent

THE MURKY mystery involving 11m gold coins worth Y1.1 trillion (million million) issued to celebrate the late Emperor Hirohito's 60th year on Japan's Chrysanthemum throne is about to enter a new phase.

On his arrival in Tokyo yesterday Mr Paul Davies, a UK coin dealer, said he would start a civil court action next week against the Japanese government and the Tokyo metropolitan government to seek the return of 3,200 Hirohito coins, valued at more than £600,000. They were seized 26 months ago by the Tokyo police at Narita airport. He also seeks compensation.

The police claimed that the confiscated coins were fakes and that they had uncovered Japan's largest known counterfeiting case. They alleged the coins were part of a consignment of 107,000, then worth US$70m, suspected of being *counterfeits and imported to* Japan from the Middle East through European intermediaries.

Mr Davies, a 40-year-old barrister who set up a coin dealing business in Ilkley, West Yorkshire, 19 years ago, has always protested that his coins are genuine.

He said yesterday that his main motive in taking his case to the Japanese court was to insist that the *relevant* government authorities prove, beyond all doubt, that the coins are fakes. "If they are unable or unwilling to substantiate their *claims, I should be fully* compensated for my losses," he said, "and my tarnished reputation should be unconditionally restored."

Mr Davies said another aspect of the court proceedings would be to highlight the contradictory behaviour of Japan's Ministry of Finance, the Tokyo Customs Office, the Bank of Japan and the Osaka Mint prior to the seizure of his company's coins.

He suggested: "Their behaviour, both collectively and independently, clearly established that the coins are unquestionably genuine."

The affair began in 1985 when Japan gave the gold market a tremendous boost by importing 300 tonnes of gold, then worth $3bn, to prepare for the issue of the Hirohito coins the following year.

The scheme was controversial from the outset because the gold was imported via New York in an effort to make the balance of trade with the US look less favourable to Japan.

It also involved big profits for Japan's finance ministry. The coins were priced at Y100,000 each, twice the value of the 20 grams of gold they contained. Consequently, the ministry made a profit of up to Y600bn, *worth $3.5bn at the* time.

However, as the coins were legal tender and the Bank of Japan was obliged to buy them back at Y100,000 each, there were obvious risks that forgers might try to cash in on the premium between the gold content and the legal-tender price. *In January 1990 the Tokyo* police said that this had indeed happened and claimed forgers had been at work since 1988.

The Tokyo police and the Finance Ministry continue to deflect questions about the affair by saying investigations are continuing. But Mr Davies claimed yesterday the police effectively abandoned their investigations in the summer of 1990.

He said: "I have been held as a financial hostage by the Japanese bureaucracy for over two years and made to pay the penalty for a crime that does not exist. The financial pressure caused by the prolonged confiscation of my coins is greatly *restricting my business.*

"The Tokyo police and the finance ministry are not above the law. They must be accountable for their actions and cannot be allowed to hide behind a veil of secrecy."

His Japanese attorney, Mr Takeshi Sakuragi, will formally lodge the legal documents at the Tokyo District Court next Tuesday.

Appeal for greater openness in gold market

THE FIRST chairman of the London Bullion Market Association made a final appeal for greater transparency in the gold market as he stepped down from his position yesterday after four years, Reuter reports.

Mr Robert Guy, a director of N.M. Rothschild, the bullion house, said the long bear run in gold had discouraged investors from using the market, but added that if they returned as the market picked up, they would demand more information.

"If you want to attract investors into the market you shouldn't ask them to invest blind," Mr Guy said.

The LBMA chairman said historic but regular reports on *London's gold market turnover* would also assist the bullion houses themselves.

"It is internally important for the companies involved in the market to have a benchmark to compare their activities with each other," he said.

Pointing out that both the gilts and foreign exchange markets appeared to benefit by producing turnover figures, he suggested the gold market should gradually do the same. "I think the majority of market makers would be happy to see turnover figures, but the LBMA believes in consensus," he said.

The question of value added tax on gold, said Mr Guy, would continue to be an important issue. He said the outcome of current talks in Brussels on the harmonisation of VAT rates within the EC *would be of vital importance* to the London and continental gold markets.

"As far as London is concerned the worse we could do *is maintain the current situation.* There are sound reasons for removing VAT from gold, but political reality means this will be very hard to achieve."

Under current regulations members of the LBMA who trade between themselves do not pay VAT on their transactions. "It would be helpful if investors could buy gold free of VAT provided they did not take delivery," said the outgoing chairman.

He saw no move towards the market adopting a central clearing house system but said there was an interest in reducing the cost of providing a clearing service in London.

"There is no standard cost charged by the London market to the international world. . . and the provision of that cheap or free service obviously attracts a lot of business," he said.

Reformed CAP will be a tight fit

David Blackwell on problems looming for medium-scale farmers

THE FUTURE of top quality 500-acre family farms in the UK looks bleak, however diluted the proposed EC Common Agricultural Policy reforms become.

Two separate recent studies have reached similar conclusions after analysing the effect of the reforms proposed by Mr Ray MacSharry, the EC Farm Commissioner. Central to his plan is a 35 per cent reduction in cereals prices to bring them nearer to world levels. Farmers would get compensation for the cut only if they set aside 15 per cent of their land.

Only recently a 500-acre farm would provide a comfortable living – certainly enough to send a couple of sons to public school, according to Mr Malcolm McAllister, managing director of Booker Farming, which farms and advises on 45,000 acres in England.

The comfortable living has *already disappeared*, and the additional imposition of the proposed reforms would be "devastating" to a 500-acre unit. Its net income, estimated at £20,000 now, would fall to just £3,500 before the "nominal set-aside compensation", Booker predicts.

Grant Thornton, the farming accountancy firm, is predicting a fall in the income of a well-run 500-acre farm from £65.70 an acre to £55 an acre before rent and finance costs.

Given the tightening restrictions in income, it is not surprising that more than 9,000 UK farms have gone out of production in the past five years, as a National Westminster Bank study showed earlier this year. The bank predicted a continuing concentration in the industry as the largest farms expanded and the smallest shrank.

The outlook for the top quality, 500-acre UK family farm looks bleak under a reformed CAP, according to two recent studies

Ironically, Mr MacSharry sees his reform plans as supportive of family farming in Europe. "In this country he will definitely not be supporting the concept of the family farm," says Mr McAllister.

Mr Gary Markham of Grant Thornton points out that even in the UK the MacSharry plans will benefit the average, as opposed to the high performance 500-acre farm, which would show a profit of £25 an acre compared with the £21.40 being realised at the moment. However, for most farmers this is still not sufficient to fund interest on borrowings and/or rent, which can be more than £50 an acre.

Mr Markham believes that the MacSharry reforms will be of maximum benefit "on low performance farms of under 300 acres, but most of these will still trade at a loss, and will probably disappear".

For the bigger farmers the options are limited – they can try to increase output still further, they can reduce fixed costs, or they can adjust their business to make full use of crops such as potatoes and sugar-beet which are not affected by the MacSharry plans.

"Progressive units must plan for the changes now," Mr Markham says. "It could make the difference between staying in farming or not, depending on the level of rent or finance."

Booker Farming has worked out that the MacSharry plans would cut the net profit on one of its 1,200-acre farms from £60,000 to £19,500. But Mr McAllister believes the damage can be limited through further expansion, such as taking a typical 500-acre farm under contract.

Under such a scheme, according to Booker, the owner of the 500-acre farm would end the year with an income of £27,000 while the net income for the 1,200-acre farm will be £70,500. The 500-acre farmer's income will come from a fixed sum of £50 an acre, including the 75 acres of set-aside which Booker would manage, coupled with a share of the profits.

Mr McAllister, whose company achieved a return last year of 24 per cent on capital employed, believes such an arrangement would create a single viable business through economy of scale in place of two unviable businesses. The contracted-out farmer would live on his farm and enjoy it, but cease to farm directly.

Booker would spend more money on training, hoping to reduce costs on fuel, sprays and fertilisers still further. Last year, Mr McAllister claims a 15 per cent saving on fuel after making sure that every tractor driver could check fuel injectors and filters.

Contracting-out might seem a drastic way out, but Mr Markham agrees that increasing the size of a well-run farm appears to be almost the only option to reduce fixed costs by any substantial amount.

Meanwhile, Mr Markham points out, it is the uncertainty surrounding the reforms that is hurting the farming business most. "Let's get on with it and fix the goal posts in place," he said.

Tin producers' association set to end export quotas by 1994

THE ASSOCIATION of Tin Producing Countries is likely to end tin export curbs by 1994 because low prices are already forcing members to produce *below their quotas, according* to a senior association official, Reuter reports from Kuala Lumpur.

"Based on the current stock *depletion rate, we may continue* the export quotas for another one-and-a-half years," said Mr Redzwan Sumun, the producer group's executive secretary.

The association's members – Australia, Bolivia, Indonesia, Malaysia, Nigeria, Thailand and Zaire – account for about 60 per cent of world production and they have operated a system of annual export quotas since March 1987.

Prolonged low prices, caused by a large stock overhang and depressed demand, have caused mine closures and production cuts.

To help reduce the overhang, the association's current agreement limits members' exports *to a total of 87,091 tonnes in* 1992, down from 95,849 in 1991. Members produced less than their quotas in 1991 and analysts say the trend could *continue if prices remain low.*

Some analysts estimate the ATPC members' 1992 production at 85,000 tonnes.

The Malaysian tin price *surged yesterday to* an eight-month closing high of M$15.05 ($5.92) a kilogram, reflecting rising consumer interest, after recently dropping almost to a *low of M$13.99 a kilogram.*

Non-ATPC members Brazil and China, the world's top two producers, have voluntarily limited exports in recent years.

Mr Redzwan put world tin stocks at slightly below 40,000 tonnes at the end of April, marginally lower than a year ago but well above the ATPC's market-equilibrium target of 20,000 tonnes, or six weeks' of world consumption.

● A Brazilian high court has delayed an expected ruling on a dispute over mining rights at Brazil's biggest tin mine, Bom Futuro, *after a judge asked for* more time to study the case, the Gazeta Mercantil reported.

The Gazeta said two Supreme Court justices had *voted to give the rights to the* Ebesa consortium when a third justice called for a delay to review the process.

Ebesa, a group of seven companies led by Paranapanema, the world's largest private-sector tin ore producer, was granted the right in November to mine the open-cast site in the Amazon state of Rondonia.

In December, wildcat miners won a court injunction against the Ebesa consortium while appealing to win the right to work Bom Futuro.

State of Rondonia officials have said that despite the injunction about 1,500 wildcat miners continue to work the site. In March, police and government officials confiscated 48 tonnes of tin produced by the wildcat miners.

The Gazeta did not report whether a new date had been set for the ruling.

Venezuela invests $3.8bn in oil refineries

By Joe Mann in Caracas

VENEZUELA'S national oil company, PDVSA, is investing more than US$3.8bn to upgrade its two largest oil refineries. The investments are among the largest in the world oil refining industry.

The company has placed a high priority on the investments and they are not likely to be affected by budget cuts – anticipated this year because of lower-than-expected world oil prices.

Upgradings are planned for the Cardon refinery, operated by PDVSA subsidiary Maraven, and at the Amuay refinery, operated by Lagoven, another PDVSA division.

The investments are intended to enhance product quality to meet future environmental standards (especially those of the Clean Air Act in the US). They are also designed to increase processing of heavy crude oils and to raise profitability.

The two refineries, connected by a system of pipelines last year, have combined crude oil processing capacity of 935,000 barrels per day. Viewed as a single complex, that makes Amuay and Cardon the largest complex in the world.

Cardon, with 300,000 b/d of processing capacity, is receiving investments of $3bn. Outlays for a delayed coker, catalytic platformer, *isomerisation* unit, and other projects will radically alter the refinery's product slate. The facility now produces about 70 per cent distillates and 30 per cent high sulphur fuel oil. By 1994, the refinery is expected to produce 90-95 per cent distillates and only 5-10 per cent fuel oil.

Investments at Amuay, which has a capacity of 635,000 b/d, will total $818m. They cover a delayed coking facility and other units to raise the quality of refined products and reduce emissions.

Both refineries are building plants to produce MTBE and TAME, oxygenates used to replace lead in car petrol. International companies, including *Fluor Daniels* and Foster Wheeler, are involved in the projects.

Sugar strikes hit Guyana and Barbados

By Canute James in Kingston, Jamaica

THE SUGAR industries of Guyana and Barbados have been crippled by strikes as millers and unions argue over higher wages.

Guyana's 20,000 sugar workers have left the country's eight mills idle to support their union's demand for wage increases of 100 per cent. The Guyana Sugar Corporation, the country's sole producer, says it cannot pay that much.

The strike comes amid indications of a recovery in output by the Guyanese industry. Production so far this year of about 90,000 tonnes is slightly more than double the output in the corresponding period of last year.

The union representing sugar workers in Barbados said the strike in that island followed the refusal of the milling company, Barbados Sugar Industry, to pay workers a bonus agreed earlier. The company claims the formula for the bonus has not been agreed with the union. The sugar harvest was delayed by an eight-week strike, and the industry, which is forecasting output of 55,000 tonnes, has had to import to meet home demand.

Coffee exports from ICO down

EXPORTS by exporting members of the International Coffee Organisation to all destinations totalled 6.31m bags (60 kg each) in March 1992, compared with 6.76m bags in March 1991, according to ICO statistics, Reuter reports.

About 5.66m bags were shipped to other ICO members and 646,000 bags to non-members.

WORLD COMMODITIES PRICES

MARKET REPORT

MOST BASE metals prices fluctuated in narrow trading ranges at the London Metal Exchange during the afternoon with traders watching the latest round of German metal workers pay talks. The **COPPER** market was the most nervous – Germany is one of the world's biggest importers of that metal – and the cash position closed £8.50 down on the day at £1,218 a tonne, extending the fall on the week to £22.25 a tonne. The **TIN** market's recent strength was maintained, although the three months delivery position again failed to break resistance at $6,100 a tonne. *The closing* price was $6,090.50 a tonne, up $15.50 on the day. Traders suggested a technical correction back to about $6,000 a tonne might be needed before a renewed challenge of the upside resistance could succeed. **COCOA** and **COFFEE** prices were holding on to slim gains at the close but traders were not expecting substantial rallies to develop. "The real test will be when we start to see further origin-selling but for now, we're just happy to end the day in the plus column," one cocoa trader said.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$17.25-7.30q	+0.25
Brent Blend (dated)	$19.90-9.95	+0.75
Brent Blend (Jul)	$19.65-9.75	
W.T.I (1 pm est)	$20.80-0.80q	-0.75
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$228-230	
Gas Oil	$182-183	+1
Heavy Fuel Oil	$78-78	
Naphtha	$190-191	-0.5
Petroleum Argus Estimates.		
Other		+ or -
Gold (per troy oz)♣	$335.30	+0.10
Silver (per troy oz)♣	408c	-1.0
Platinum (per troy oz)	$353.75	+0.55
Palladium (per troy oz)	$82.75	+0.15
Copper (US Producer)	104.86c	+0.05
Lead (US Producer)	37.37c	+0.37
Tin (Kuala Lumpur market)	15.05r	+0.06
Tin (New York)	283.0c	+4.5
Zinc (US Prime Western)	62c	
Cattle (live weight)†	108.54p	+0.03*
Sheep (live weight)†♣	90.89p	-8.30*
Pigs (live weight)†	100.80p	+1.57*
London daily sugar (raw)	$244.8t	+0.3
London daily sugar (white)	$284.0t	+1.0
Tate and Lyle export price	£243.0	-1.5
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£147.5	
Wheat (US Dark Northern)	£120w	
Rubber (Jun)♥	53.25p	
Rubber (Jul)♥	53.25p	
Rubber (KL RSS No 1 Jun)	217.5r	+0.5
Coconut oil (Philippines)§	$640.0t	+5.0
Palm Oil (Malaysian)§	$390.0q	+10
Copra (Philippines)§	$415.0	+2.5
Soyabeans (US)	£149.5q	+0.5
Cotton "A" Index	60.20c	+0.4
Wooltops (64s Super)	430p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. t-May/Jun y-Apr/May w-Apr z-May. q-Jun. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical. §CIF Rotterdam. ♣ Bullion *market close. m-Malaysian cents/kg.*♣Sheep prices are now live weight prices.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Aug	215.20	215.00	214.40	213.00
Oct	204.60	203.00	203.00	202.00
Dec	194.00	190.60	190.60	
Mar	196.40	195.40	196.00	
White	**Close**	**Previous**	**High/Low**	
Aug	278.00	277.90	279.00	276.80
Oct	268.30	268.00	268.00	266.90
Dec	268.30	267.30	267.50	267.00
Mar	268.10	268.20	269.00	268.20

Turnover: Raw 111 (66) lots of 50 tonnes. White 792 (795)
Paris- White (FFr per tonne): Aug 1538.40 Oct 1487.82

CRUDE OIL – IPE $/barrel

	Close	Previous	High/Low	
Jun	19.87	19.86	20.18	19.74
Jul	19.63	19.71	19.84	19.57
Aug	19.50	19.63	19.71	19.50
Sep	19.44	19.56	19.58	19.45
Oct	19.44	19.51	19.50	19.40
Nov	19.45	19.44	19.47	19.44
Dec	19.39	19.43	19.40	19.39
Feb	19.20	-	19.24	19.24
IPE Index	1986	19.35	1986	1986

Turnover 32001 (24463)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
Jun	179.75	178.75	180.25	178.50
Jul	180.00	179.25	180.75	179.00
Aug	181.75	181.00	182.25	180.25
Sep	183.00	183.00	184.00	182.50
Oct	185.50	185.00	185.75	184.50
Nov	186.75	186.00	187.25	185.75
Dec	187.00	187.25	187.00	187.00
Jan	186.00	185.75	186.00	185.25

Turnover 9385 (13371) lots of 100 tonnes

WOOL

Prices in Australian terms are holding firm, *with better styles tending firmer and* crossbreds particularly in good demand. However, weakness in the US dollar is inevitably reflected in Australian exchange rates, and from time to time recently Australian economic problems have tended to underline this factor. Overseas buyers consequently find wool a little cheaper to buy. The strength in sterling has led to more definite price reductions in the UK. Business is at present quiet but activity in early processing remains very good and signs of recovery from recession are *cautiously indicated elsewhere.*

COCOA – London FOX £/tonne

	Close	Previous	High/Low	
May	545	540	545	540
Jul	567	563	571	560
Sep	592	588	595	585
Dec	623	619	626	618
Mar	653	649	655	647
May	673	670	674	670
Jul	692	690	691	689
Sep	712	710	712	708
Dec	737	737	737	735
Mar	763	763	767	763

Turnover: 6147 (7311) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 12 720.60 (717.83) 10 day average for May 13 732.17 (735.71)

COFFEE – London FOX $/tonne

	Close	Previous	High/Low	
May	692	689	691	685
Jul	711	705	711	705
Sep	732	727	734	726
Nov	752	744	752	747
Jan	773	761	767	764
Mar	790	781	788	782
May	808	801	808	808

Turnover 2064 (2237) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 12: Comp. daily 48.60 (48.02) 15 day average 48.33 (48.60)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low	
Apr	110.0	111.5	112.0	109.0

Turnover 54 (173) lots of 20 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low	
Jun	121.00	-	121.50	121.00
Oct	125.50	-	125.50	
Dec	129.20	-	129.20	

Turnover 100 (15) lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low	
May	1263	1268	1270	1251
Jun	1200	1215	1215	1190
Jul	1101	1110	1125	1090
Oct	1235	1240	1240	1230
BFI	1268	1269	1268	

Turnover 412 (132)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low	
Jun	125.15	125.70	125.25	125.10
Sep	110.85	-	110.90	110.85
Nov	113.90	114.35	114.10	113.80
Jan	117.50	117.80	117.60	117.45
Mar	120.60	120.85	120.80	120.50
Barley	**Close**	**Previous**	**High/Low**	
May	119.00	118.75	119.00	
Sep	107.70	108.20	108.00	107.70
Nov	111.40	111.90	111.70	111.40
Jan	114.70	115.20	115.00	114.70
Mar	117.65	118.25	117.85	117.60

Turnover: Wheat 178 (144), Barley 138 (82). Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low	
Jul	113.0	113.0	112.9	112.7
Oct	108.0	108.5	107.3	107.0
Nov	107.0	107.0	107.0	106.5

Turnover 34 (66) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 17,479 lots
Cash	1297.5-8.5	1295.5-6.6	1300.5/1300.5	1300-0.5		
3 months	1323.5-4.0	1321-2	1327/1323.5	1326-7	1325-6	166,522 lots
Copper, Grade A (£ per tonne)						Total daily turnover 16,855 lots
Cash	1217.5-8.5	1226-7	1217/1217	1217-7.5		
3 months	1244.5-5.5	1253-4	1248/1244	1244-4.5	1245.5-6.0	103,026 lots
Lead (£ per tonne)						Total daily turnover 1,150 lots
Cash	291-1.25	290.75-1.25	291.25/291	290.5-1.0		
3 months	303.5-4.0	303.5-3.75	305/303	303.5-4.0	304-4.5	16,853 lots
Nickel ($ per tonne)						Total daily turnover 4,562 lots
Cash	7315-25	7265-75		7302-5		
3 months	7400-10	7355-60	7415/7375	7390-5	7400-5	24,458 lots
Tin ($ per tonne)						Total daily turnover 1,781 lots
Cash	6060-5	6060-70		6070-80		
3 months	6090-1	6070-80	6100/6065	6075-80	6085-90	7,134 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 18,130 lots
Cash	1332-5	1337-42	1337/1337	1336-7		
3 months	1257-7.5	1257-8	1262/1256	1256-7	1259-60	61,730 lots

LME Closing £/$ rate:
SPOT: 1.8135 3 months: 1.7850 6 months: 1.7604 9 months: 1.7401

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (fine oz)	$ price	£ equivalent
Close	335.10-335.50	
Opening	334.90-335.20	
Morning fix	334.75	183.929
Afternoon fix	335.20	184.683
Day's high	335.40-335.70	
Day's low	334.70-335.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.88	6 months	2.96
2 months	2.88	12 months	3.24
3 months	2.90		

Silver fix	p/fine oz	US cts equiv
Spot	224.17	408.00
3 months	230.10	412.20
6 months	236.45	418.00
12 months	248.30	425.75

GOLD COINS
(Prices supplied by Engelhard Metals)

	$ price	£ equivalent
Krugerrand	335.00-338.00	184.50-185.00
Maple leaf	346.00-347.00	190.50-191.00
New Sovereign	81.00-82.00	44.50-45.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1250	76	101	8	18
1300	42	68	23	35
1350	19	43	50	59
Copper (Grade A)	**Calls**		**Puts**	
2100	125	134	3	8
2200	43	62	18	35
2300	8	21	80	92
Coffee	**Jul**	**Sep**	**Jul**	**Sep**
650	63	90	2	8
700	25	54	14	22
750	6	29	45	46
Cocoa	**Jul**	**Sep**	**Jul**	**Sep**
550	27	37	10	20
575	14	24	22	32
600	6	16	38	48
Brent Crude	**Jul**	**Aug**	**Jul**	**Aug**
1900				
1950	54	62	35	59
2000	29	38		

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
May	335.6	335.3	0	0
Jun	336.1	335.8	336.5	335.2
Jul	336.9	336.6	0	0
Aug	337.6	337.2	337.8	336.8
Oct	339.2	338.9	339.4	339.0
Dec	341.1	340.8	341.5	340.4
Feb	343.3	343.0	0	0
Apr	345.4	345.2	0	0
Jun	347.8	347.6	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
May	351.2	351.7	0	0
Jul	353.2	353.7	355.6	353.0
Oct	357.1	357.5	359.0	356.5
Jan	357.1	357.5	0	0
Apr	358.1	359.0	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
May	408.8	408.9	408.5	409.5
Jun	409.2	409.6	408.5	408.0
Jul	410.3	410.8	411.5	408.5
Sep	413.3	413.8	414.0	412.0
Dec	417.8	418.4	419.0	417.0
Jan	419.4	420.0	0	0
Mar	423.0	423.7	0	0
May	426.7	427.6	0	0
Jul	430.4	431.3	0	0
Sep	434.8	435.8	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	100.35	100.70	100.75	100.30
Jun	100.50	101.00	100.75	100.60
Jul	100.70	101.10	101.15	100.65
Aug	100.70	101.20	101.00	100.70
Sep	100.90	101.30	101.15	100.85
Oct	100.95	101.35	0	0
Nov	100.95	101.35	0	0
Dec	101.00	101.40	101.40	101.00
Jan	100.90	101.20	0	0
Feb	100.75	101.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	9.70	9.67	9.70	9.56
Oct	9.17	9.12	9.18	9.05
Mar	9.00	8.97	9.01	8.88
May	8.96	8.92	8.97	8.91
Jul	8.90	8.88	8.85	8.85
Oct	8.85	8.89	8.86	8.84

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low	
Jun	20.74	20.96	21.00	20.74
Jul	20.98	21.09	21.11	20.87
Aug	20.92	21.09	21.12	20.90
Sep	20.90	21.04	21.09	20.90
Oct	20.85	20.96	21.00	20.82
Nov	20.86	20.88	20.93	20.77
Dec	20.73	20.83	20.84	20.70
Jan	20.68	20.75	20.79	20.63
Feb	20.61	20.68	20.65	20.61
Mar	20.58	20.61	20.58	20.58

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Jun	5690	5752	5800	5690
Jul	5670	5718	5760	5670
Aug	5760	5792	5820	5760
Sep	5850	5885	5915	5850
Oct	6000	5990	6020	5965
Nov	6110	6075	6100	6060
Dec	6150	6155	6175	6150
Jan	6190	6175	6210	6170

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
May	873	871	884	870
Jul	921	917	928	918
Sep	960	957	968	958
Dec	1009	1005	1013	1005
Mar	1047	1045	1050	1048
May	1076	1072	1080	1073
Jul	1107	1103	0	0
Sep	1134	1130	0	0
Dec	1165	1170	1165	1165

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
May	63.00	61.90	62.75	62.25
Jul	63.75	62.95	64.00	62.70
Sep	65.70	65.20	66.10	64.90
Dec	68.85	68.50	69.00	68.25
Mar	71.85	71.85	72.45	71.60
May	75.75	76.15	76.15	75.75
Jul	77.90	78.50	78.00	78.00
Sep	80.50	80.50	80.50	80.50

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	62.55	60.62	62.60	61.00
Oct	62.75	61.08	62.90	61.45
Dec	62.94	61.66	63.05	61.90
Mar	64.15	62.95	64.15	63.15

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	139.20	138.50	139.70	137.75
Jul	132.95	129.90	133.00	129.80
Sep	125.20	122.15	125.20	122.45
Nov	116.80	114.90	117.30	116.00
Jan	116.00	114.65	116.50	115.30
Mar	115.80	114.50	116.50	116.25
May	115.25	114.05	116.00	116.00

INDICES

REUTERS (Base: September 18 1931 = 100)

May 13	May 12	mnth ago	yr ago
1589.9	1594.7	1606.6	1712.5

DOW JONES (Base: Dec. 31 1974 = 100)

	May 12	May 11	mnth ago	yr ago
Spot	118.00	117.72	115.82	128.63
Futures	118.84	118.80	118.37	126.41

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
May	614/4	599/6	615/0	598/4
Jul	610/4	605/0	621/0	603/4
Aug	623/2	607/6	625/0	608/0
Sep	627/4	614/2	630/0	613/4
Nov	635/2	621/4	638/0	621/0
Jan	643/2	629/4	644/4	629/4
Mar	650/4	638/2	653/0	638/4
May	657/0	644/2	658/0	644/4
Jul	660/4	648/0	661/0	649/0
Nov	608/4	614/2	614/4	606/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
May	20.93	20.56	21.00	20.56
Jul	21.12	20.81	21.25	20.82
Aug	21.27	20.95	21.38	20.98
Sep	21.46	21.14	21.56	21.20
Oct	21.62	21.29	21.70	21.34
Dec	21.92	21.60	22.02	21.62
Jan	22.01	21.71	22.05	21.75
Mar	22.30	21.90	22.30	22.05
May	22.55	22.05	22.65	22.20

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
May	187.5	181.6	187.5	180.4
Jul	188.2	182.6	188.5	181.9
Aug	189.1	182.5	189.3	182.5
Sep	189.0	182.9	189.5	182.9
Oct	207.0	200.0	207.0	200.0
Dec	208.2	201.2	208.5	200.7
Jan	207.7	202.0	208.0	207.3
Mar	207.2	201.5	208.0	202.0
May	207.5	0	207.5	207.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
May	255/4	254/2	258/0	253/6
Jul	261/0	258/4	264/2	259/4
Sep	261/8	259/4	265/6	260/2
Dec	263/6	260/0	267/0	260/6
Mar	271/4	268/0	274/6	268/4
May	275/2	271/6	278/2	273/6
Jul	279/4	275/6	281/0	276/4
Dec	265/0	260/2	266/0	264/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
May	384/4	379/2	386/0	377/4
Jul	362/6	363/4	367/6	362/0
Sep	368/4	368/2	371/2	365/6
Dec	374/0	376/2	379/0	373/4
Mar	374/0	378/0	378/0	373/0
May	364/0	366/0	366/0	364/0
Jul	344/0	348/0	347/4	344/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	73.725	73.675	73.950	73.525
Aug	70.875	70.475	70.900	70.400
Oct	70.425	70.125	70.475	70.000
Dec	70.125	69.650	70.175	69.600
Feb	69.550	69.125	69.625	69.350
Apr	70.625	70.400	70.825	70.400
Jun	68.150	68.300	68.300	68.150

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Jun	48.250	48.000	48.300	47.875
Jul	46.450	46.325	46.650	46.200
Aug	44.150	43.850	44.200	43.900
Oct	40.600	40.400	40.600	40.300
Dec	42.900	42.650	42.900	42.575
Feb	43.850	43.725	44.050	43.725
Apr	42.650	42.475	42.850	42.550
Jun	47.200	47.075	47.200	47.000

LONDON STOCK EXCHANGE

Market passes £154m rights issue test

By Steve Thompson

THE EQUITY market survived another severe test of its nerve, closing in reasonably good shape, after the recent, post-election trickle of small-sized rights issue began to flow stronger yesterday. BICC, the international cables and heavy electrical group, emerged to ask the market for £154m via a straight rights issue.

However, the rights issue's effect was cushioned somewhat by a handsome set of preliminary figures from Sainsbury, which inherited from Marks & Spencer the mantle of the UK's most profitable retailing organisation. There was also another rock solid performance by sterling against the dollar and the D-mark. Sterling's strength led more market participants to expect a further reduction in UK interest rates. There was further good news from an encouraging survey of UK business confidence, carried out by the Confederation of British Industry. Adding to an overall cheerful mood in London was renewed overseas buying of UK stocks, dealers said.

The FT-SE 100 share index, after one of its most subdued sessions since the general election, closed 1.9 easier at 2,720.5. Brokers remained more than happy, however, with the level of business moving through the market. Yesterday saw turnover in equities top the 600m mark to reach 604.6m shares, *ahead of Tuesday's* 592.1m shares.

Although Tuesday's turnover was below recent levels the value of customer business remained well ahead of the £1bn daily level regarded as the minimum requirement to provide a profitable market place for broking firms.

More good news regarding the strength and flexibility of London securities houses came *with news that Kleinwort Ben*son Securities had carried out a £40m-plus deal, placing with its institutional clients a 3.26m block of shares in Securitas, the Swedish company, on behalf of Group 4 Securitas.

The BICC rights issue, plus another, albeit much smaller fund-raising exercise by Transfer Technology, which asked shareholders for £24m, coming so soon after the bout of profit-taking and indigestion caused by recent placings and bought deals, caused only momentary problems for the market.

The Footsie began the session almost five points lower at 2,717.5 but was quickly on the recovery trail after J. Sainsbury delighted its investors in reporting a 21 per cent leap in preliminary profits, to £628m, leapfrogging Marks & Spencer's £623.5m, reported on Tuesday, and increasing its market share. Sainsbury shares surged higher on exceptionally heavy turnover, taking those of fellow food retailers Tesco and Argyll with them.

Insurance shares were also very much in demand, with Royals chased ahead of today first-quarter numbers, which are expected to show a slight improvement the corresponding quarter. Guardian Royal Exchange, initially responding to whispers that one of the big European insurers may be casting a predatory eye over the UK composite. Ratners shares are expected to come under pressure at the opening this morning after the group said it would need to make an exceptional charge of £98m in its 1991/2 accounts to accommodate rationalisation costs.

Account Dealing Dates		
*First Dealings:		
Apr 27	May 11	Jun 1
Option Declarations:		
May 7	May 28	Jun 11
Last Dealings:		
May 8	May 29	Jun 12
Account Day:		
May 18	Jun 8	Jun 22

*New-time dealings may take place from 8.30 am two business days earlier.

Sainsbury produces the goods

SPARKLING results from J. Sainsbury had the company *in the unusual position of try*ing to persuade analysts to be cautious about upgrading their forecasts. The shares were the *best performers in the FT-SE* Index, climbing 20 to 459p in brisk turnover of 7m.

A combination of increased *sales, tight cost control* and productivity improvements gave the stores group a 21 per cent rise in pre-tax profits, and *the dividend payment* was lifted from 7.27p to 8.25p.

Mr Bill Currie at BZW said: "These were really outstanding figures. Sales-led growth is the best quality type of results a company can deliver." He is now forecasting £735m for 1992-93, a rise of £15m.

Goldman Sachs has improved its forecast by £25m to £730m. Its food retailing analyst Mr Philip Dorgan was equally impressed. "In this type of trading environment, who else can match a 20 per cent dividend increase," he asked.

Climbing in sympathy were Argyll Group, ahead 5 at 365p, and Tesco, up 6½ at 290½p.

GRE active

The return of some very whiskery bid talk lifted Guardian Royal Exchange in early trading. The spark for the talk was speculation that a large line of stock had been bought at a premium to the market price early in the morning.

The alleged buyer was Axa Midi, the French insurer, which is casting its eye around at the moment. Apart from a block of 1.4m shares dealt at 163p, however, there were no significant single trades in GRE and an analyst commented: "As Axa is looking for a life business in the US, I do not see why it should be keen on a UK composite as well."

Sense prevailed and, *in spite of a bullish annual statement*, the shares, which had been 7 ahead at one stage, closed unchanged at 158p.

BAe recommended

British Aerospace was boosted by several broker recommendations. The stock strengthened 11 to 366p, with *turnover reaching 5.3m, as* County NatWest, Smith New Court and long-term bear Strauss Turnbull urged *investors to buy the shares.*

The brokers cited the high 9.5 per cent yield of the shares, the company's improved financial position due to revenue from the Al-Yamamah Saudi defence contract on which BAe is the lead contractor, and the new management at the group.

Both Strauss and County advised investors to switch into BAe from Rolls-Royce, which left the latter 3¼ lower at 165p on turnover of 5.7m. County reduced its 1993 forecast for Rolls-Royce by £25m to £175m and blamed the delay in the recovery of the spares business for the cut.

A cash call from BICC was viewed positively by the market, as the electricals group said it would use the money to make acquisitions in the cable industry. BICC intends to raise £154m by a one-for-five rights issue at 285p per share.

The group has underperformed the market in recent months, with many analysts *critical of its property develop*ment business. Yesterday's response was seen as one of relief that the group was *planning to return to its core busi*ness. The shares gained 9 to 356p in heavy turnover of 10m.

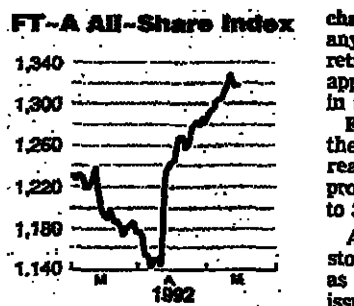
Part of the money – believed to be about £50m – has been earmarked *to buy a* US cable business. The remainder is thought to be allocated between a further purchase, this time in Europe, and investment in plant in eastern Europe.

A strong two-way pull in Vodafone kept the stock active, the shares firming 2¼ to 373½p. BT fully-paid gained 6 *to 353p, Tuesday's buy note* from S.G. Warburg raising sentiment.

Hotel group Forte put on 7 to 253p after recent underperformance and also on reflection that the sector may at last have bottomed out after Vaux's figures on Tuesday.

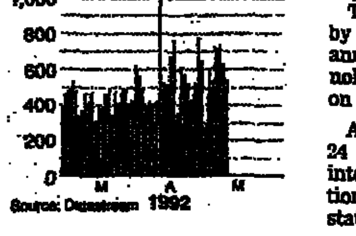
In spite of reports of discounting among the holiday groups, Owners Abroad rose 4 to 108½p, helped by a buy note from County NatWest. Analyst Ms Lisa Gordon reported Owners to be slightly ahead of competitors such as *Airtours* and Thompson in sales for this year. Airtours shed 5 to 308p.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: Intra-market business & Overseas turnover



Source: Datastream 1992

Composite insurers were *strong, helped by comment at* the Smith New Court morning meeting. Smith insurance analyst Mr Steven Bird argued that companies *should only* be trading at a discount to net asset value (nav) if their assets are not working for them.

Smith particularly *likes* Sun Alliance, which rose 6 to 330p, and Commercial Union, up 7 before drifting to close just slightly ahead at 501p.

A straightforward annual meeting from SmithKline Beecham was not enough to put any pep into the shares. They retreated 13 to 883p in spite of approval for a share split later in the summer.

Fisons, languishing under the uncertainty surrounding reapproval for two of its products *in the US, slipped* 11 to 363p.

Amber Day, the discount stores chain, improved 2 to 75p as the company said it had issued a libel writ against the Sunday Express, and explained points raised by the article. The shares, which have been vulnerable to bear raids, had weakened 10 in the first two days of this week.

Three acquisitions financed by a £23.9m rights issue were announced by Transfer Technology Group. The shares put on 2 to 485p.

Avon Rubber forged ahead 24 to 459p after reporting interim figures above expectations and an optimistic trading statement.

Lucas Industries closed 2 lower at 146p. *Standard and* Poor's, the US credit rating agency, yesterday lowered the commercial paper rating of Lucas in both the UK and US from A1 to A2, citing a reduction in profits.

MARKET REPORTERS:
Christopher Price,
Joel Kibazo,
Peter John.

■ Other market statistics, Page 19.

FINANCIAL TIMES STOCK INDICES

	May 13	May 12	May 11	May 8	May 7	Year Ago	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs	88.84	88.61	88.67	88.57	88.57	84.20	88.84 (13/5)	85.11 (1/4)	127.40 (9/1/35)	49.18 (3/1/75)
Fixed Interest	103.82	103.73	103.76	103.50	103.45	93.57	103.82 (13/5)	97.15 (2/1)	105.40 (28/11/47)	50.53 (3/1/75)
Ordinary Share●	2136.2	2137.6	2147.1	2134.7	2110.2	1926.2	2147.1 (11/5)	1851.4 (3/4)	2147.1 (11/5/92)	49.4 (26/6/40)
Gold Mines	107.7	110.1	111.0	110.5	111.3	153.8	160.6 (10/1)	106.8 (29/4)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2720.5	2722.4	2737.8	2725.7	2701.9	2459.4	2737.8 (11/5)	2382.7 (3/4)	2737.8 (11/5/92)	986.9 (23/7/84)
FT-SE Eurotrack 200	1243.41	1243.10	1248.79	1247.48†	1237.52	1146.26	1248.79 (11/5)	1120.52 (8/1)	1248.79 (11/5/92)	938.62 (18/1/91)
●Ord. Div. Yield	4.28	4.27	4.24	4.26	4.30	4.98				
●Earning Yld %(full)	6.07	6.06	6.02	6.04	6.11	8.77				
●P/E Ratio(Net)(☆)	20.66	20.72	20.84	20.78	20.54	14.08				
SEAQ Bargns 5.00pm	29,677	32,452	41,075	45,645	39,243	26,129				
Equity Turnover(£m)†	-	1239.0	1329.5	1878.0	1558.9	850.81				
Equity Bargains†	-	40,775	50,562	50,165	49,997	26,076				
Shares Traded (mil)†	-	550.3	619.6	748.6	718.1	375.4				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, Base 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90. ☆ Nil 19.71. † Partial.

Ordinary Share Index, Hourly changes Day's High 2147.3 Day's Low 2131.1

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2131.1	2141.8	2146.4	2143.8	2145.7	2144.3	2144.9	2138.8	2134.7

FT-SE 100, Hourly changes Day's High 2728.1 Day's Low 2717.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2717.5	2726.3	2727.3	2725.9	2726.2	2724.1	2724.7	2721.1	2718.0

FT-SE Eurotrack 200, Hourly changes Day's High 1246.85 Day's Low 1241.73

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
1246.31	1246.38	1245.64	1245.06	1244.66	1244.49	1243.41

GILT EDGED ACTIVITY

Indices*	May 12	May 11
Gilt Edged Bargains	125.9	95.7
5 – Day average	135.9	138.9

*SE Activity 1974.
†Excluding intra-market business and Overseas turnover.

London report and latest Share index. Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p/minute at all other times.

TRADING VOLUME IN MAJOR STOCKS

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

TRADERS spoke of a dull session in stock index futures, with business once again carried out in a tight range and turnover poor, writes Joel Kibazo.

Sporadic selling characterised the early activity in the June contract on the FT-SE, which opened at 2,745. It slipped back to 2,740 by mid-morning, although the downward direction was briefly halted around midday when a few independent traders were caught short.

Having filled their positions, June once again drifted lower, and further falls were recorded with the weak opening of Wall street.

June traded between the 2,740 to 2,750 area for most of the session. It closed at 2,740, around 15 points above its estimated fair value premium to cash of about 8. Turnover was a low 5,121 contracts.

In the traded options market, dealers said "selling premium" was the main feature of the day. Turnover at 31,759 was an improvement on Tuesday's poor figure.

The FT-SE option traded a total of 8,043 contracts. Asda was the busiest stock option on 2,958 lots, with the October 40 puts particularly active. This was followed by British Gas, in which 1,820 lots were dealt.

NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (284).
BRITISH FUNDS (19) Fd 6pc '93, Tr 8¼pc '93, Tr 8½pc '94, Tr 10pc '94, Tr 9pc '94, Ex 10¼pc '95, Cv 10pc '96, Ex 10½pc '97, Tr 8¾pc '97, Ex 15pc '97, Tr 6¾pc '95-98, Ex 12pc '98, Ex 9¾pc '98, Tr 9½c '99, Tr 10½pc '99, Cv 10¼pc '99, Tr 14pc '98-01, …

FT-ACTUARIES SHARE INDICES

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FIXED INTEREST

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS - Cont.

BRITISH FUNDS - Cont.

OTHER FIXED INTEREST

LONDON SHARE SERVICE

AMERICANS

Notes	Price £	+ or -	1992 high	low	Mkt Cap £m	Yld Gr's
Abbott Labs	36⅝xd	-13/16	38 1/16	34	15,575	1.9
♥Allegheny & W	285p	-1	335p	226p	139.6	6.3
Amdahl	868p	-29	1159p	815p	1,874	0.8
Amer Cyanamid	32⅞	-¼	37	32¼	3,811	2.8
Amer Express	12½xd	-⅛	13⅞	10 11/16	5,902	4.5
Amer T & T	23¾xd	-3/16	24⅞	20⅛	31,399	3.1
Ameritech	34¼	-¼	36 11/16	32½	15,214	5.7
BankAmerica	26⅝xd	—	26⅝	19 1/16	8,132	2.8
Bankers NY	33⅛xd	-⅞	37¼	28⅞	2,750	8.2
Bell Atlantic	23⅞	-⅛	29¼	23⅛	10,242	6.1
BellSouth	28¼	-⅛	29⅛	25	13,919	5.8
♥Bethlehem Steel	8xd	-7/16	9⅝	7	611.8	–
Bowater	1289pxd	-65	1579p	1078p	434.3	5.6
CPC h	23 1/16	-⅛	25⅝	22¼	3,529	2.9
California Engy	780p	-8	839p	645p	128.5	–
Campbell Soup	18¼	-⅝	23 1/16	18 3/16	4,713	2.3
Chase Manhattan	16⅛xd	-5/16	18 7/16	9⅛	2,267	4.2
Chrysler	10 3/16xd	-¼	11⅛	6¼	3,014	3.3
Citicorp	16⅝xd	-1/16	11	5⅞	3,592	–
Colgate-Palm	27⅞xd	-11/16	28⅞	25¼	4,377	2.1
Cont'l Bank	934p	+13	1038p	499p	943.8	3.6
Dana	23 15/16xd	+1/16	24½	14 1/16	988.7	3.8
Data General	901p	-5	1004p	487p	198.2	–
Dial	18¼xd	-1/16	24⅛	19⅞	772.8	3.3
Dun & Brad	28¼	-⅛	33½	28¼	5,139	4.5
Eaton	44	-¼	48½	32½	1,499	2.8
Echlin	9⅝xd	-⅛	11	7⅞	337.5	4.1
FPL	18 3/16xd	-1/16	20	18⅛	3,318	6.9
Fluor	23⅞xd	-⅝	27	21	1,936	0.9
Ford Motor	24⅛	-¼	25⅞	15	11,818	2.3
Gen Elect	43 3/16xd	-11/16	46¼	40 1/16	37,535	2.7
♥General Host	468p	+4	566p	360p	–	4.3
Gillette	27⅛xd	-1/16	29⅞	26⅜	6,931	1.5
Hasbro h	14⅝	+⅛	18	12⅞	1,288	0.5

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

Authorised by the Inland Revenue

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIAL MATERIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT Actuaries Indices and FT Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks which are quoted on SEAQ International
- "Tap Stock"
- Highs and lows marked thus have been adjusted to allow for rights issues for cash
- Interim since increased or resumed
- Interim since reduced, passed or deferred
- Tax free to non-residents on application
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities
- Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield
g Assumed dividend yield after rights issue
h Assumed dividend yield after scrip issue
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v Subject to local tax.
z Dividend yield includes a special payment
E Minimum tender price.
F Yield based on prospectus or other official estimates for 1990-91.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1991
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1991-92
N Yield based on prospectus or other official estimates for 1992
P Figures based on prospectus or other official estimates for 1991
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1250 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

N&P Unit Trust Management Ltd (1200)F
35 Fountain St, Manchester M2 2AF 061 237 5322

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
N&P UK Growth	5	63.53	64.22	68.32	+0.20	3.27
N&P UK Income	5	88.86	90.08xd	96.35	-1.73	4.85
N&P Gilt & Fixed Int	5	68 77	68 77	72 78	+0.48	7 65
N&P Higher Income	5	160.30	160.30	170 10	-5 70	5.92
N&P Smaller Co's	5	61.72	64 03xd	68.49	+0.28	2.35
N&P International	5	77 06	77.06	82.87	-0 44	2.62

National Provident Inv Mgrs Ltd (1400)H
48 Gracechurch St, EC3P 3HH 071-623 4200

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
NPI Americas Acc ♥	5	78.26	78.71	83.73	-1.24	0.50
NPI Americas Dist ♥	5	72.54	72.94	77.60	-1.15	0.50
NPI European Acc	5	72.92	73.40	78.08	-0.05	0.11
NPI European Dist	5	70.77	71.22xd	75.77	-0 04	0.11
NPI Far East Acc ♥	5	102.7	103.4	110.0	+1.00	0.65
NPI Far East Dist ♥	5	101.2	102.0	108.5	+1.10	0.65
NPI Global Dist	5½	56.37	56.60	60.54	-0.09	3.47
NPI O'seas Acc	5	894.2	898 9	956.3	-3 00	0.86
NPI O'seas Dist	5	692.1	695.8	740.2	-2 40	0.86
NPI UK Acc	5	543.5	546.7	581.6	+1.20	3.26
NPI UK Dist	5	291.2	293 0xd	311.7	+0.70	3.26
NPI Euro Inc Dist	5½	58.98	59.35	63 48	+0.07	3 98
NPI UK Spec Opp Acc	5½	63.29	63 89	68.33	+0.08	0.37
NPI W'wide Acc	5	80 42	82.80	88.09	-0.38	0.00
NPI W'wide Dist	5	77 05	79.34xd	84.40	-0.36	0 00
NPI W'wide Inc Dist	5½	53 07	54 16xd	57.93	-0.04	2.97

For National & Provincial UT Mngrs see N&P UT Mngmt

Newton Fund Mngrs Ltd (1200)F
2, London Bridge, SE1 071-407 4404

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Newton Income	6	165 28	169 19xd	179.99	+0.22	6 07
Newton Global	6	212.15	212.15xd	225 70	+0 10	1.42
Newton General	6	131.58	135 38xd	144 03	-0 03	4.08
Newton Intl Bd	6	96.59	97 85xd	104.10	+0.26	7 47

Norwich Union Tst Managers (1200)H
PO Box 124, 51/59 Rose Lane, Norwich 0603 682234

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Master Trust	6	91.81	91.81	97.67	-0.06	3.33
UK Equity+	6	115.95	117.58	125 09	-0 07	3.94
UK Equity Income	6	115 40	117.17	124.65	+0.17	5.06
UK Smaller Co's	6	106.97	110.40	117.45	+0.73	2.52
UK Equity Growth	6	110.65	112.29xd	119.46	+0.16	4.05
UK Index Tracking ♦ F	6	115 49	116.22	123 64	+0 63	4.18
Intl Index Tracking F	6	96 45	97.27	103 48	-0.21	1.46
International	6	158.84	160.47xd	170.71	-0.50	1 97
European	6	125 89	126 89	134 99	-0.27	1.02
Pan European	6	98.24	99.21	105 54	-0.05	3.02
Nth American	6	122.63	123 77xd	131 67	-1 90	2.08
Nth Amer Smllr Cos	6	104 91	107 43	114.29	-1.20	0.00
Japanese	6	57 08	57.94	61.64	+0.77	0 00
Pacific	6	127.46	129.36	137.62	+0.09	1.16
South East Asian	6	126.92	129 13xd	137 37	-0 48	1.00
International Bond	6	103.18	103.22	104.81	-0.27	6.70
Gilt & Convertible	6	99.77	99.98	106.36	+0.29	8.14
Property F	6	71.57	73.69	78.39	+0 02	6 47
Cash Deposit Accum F	0	100 53	100 53	100.53	+0.02	9.30

For Regency Life Unit Tst see AEGON Unit Tst

Reliance Unit Mgrs. Ltd (1000)H
Reliance House, Tonbridge Wells, Kent 0892 510033

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
British Life	6	255.2	260.2	276.0	....	3 71
Reliance (Inc)	6	163.0	163.0	173.4	+1.1	3.06
Reliance (Acc)	6	243.6	243.6	259.1	+1.7	3.06

Rock Asset Mgmt (Unit Trust) Ltd (0905)F
Park View House, Front Street, Benton, Newcastle upon Tyne NE7 7TZ 091 215 0077

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Managed	5	72.86	73.63	78.12	+2.27	3.15

Rothschild Fund Management (1000)F
St Swithin's Lane, London EC4 Dealers: 071-280 5000

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
NC America (Inc)	6	341.34	341.34	365 08	-6.14	0 80
NC America (Acc)	6	394.35	394.35	421.78	-7.09	0 80
NC UK Equity Inc	6	138 01	138.01xd	148.63	+0.55	4.20
NC Japan	6	170 49	170 49	182.98	+2.90	
NC Major UK Cos	6	88.62	88 62	95 30	+0.19	2.54
NC Smllr UK Cos	6	213.87	213 87	233 24	+1.15	2.29
NC Smaller Euro	6	210.21	210.21	224.38	+8 25	1.49
RAM Personal Pension						
UK Major Co's	5¼	79.86	81.09	85.35	+0.17	-
UK Smllr Co's	5¼	56 17	57 76	60 79	+0 29	-
UK Income	5¼	71.65	72.76	76.58	+0.25	-
America	5¼	66.39	66 99	70.51	-1.18	-
Japanese	5¼	36 73	37 19	39.14	+0 62	-
European	5¼	65.70	66.16	69.64	+0.08	-
Gilt	5¼	69.90	70 01	73 69	+0.04	-
Deposit	5¼	71.85	71.85	75 62	+0 02	-
Managed	5¼	78.19	79.26	83.43	-0 01	-
RAM FSAVC Scheme						
UK Major Co's	5¼	79.72	80.96	85.21	+0.16	-
UK Smaller Co's	5¼	56.25	57.86	60 90	+0.31	-
UK Income	5¼	71.63	72.75	76.57	+0.26	-
America	5¼	66.17	66.77	70.28	-1.19	-
Japanese	5¼	36.61	37 07	39.01	+0.62	-
European	5¼	65.54	66 00	69.47	+0 08	-
Gilt	5¼	70 76	70.85	74.57	+0 04	-
Deposit	5¼	70.75	70.75	74 47	+0 01	-
Managed	5¼	74 65	75.75	79.73	+0 05	-

Royal Life Fd Mgmt Ltd (1000)F
PO Box 34, Peterborough PE2 0UE Prices: 071-410 0410
General Enq: 0733 390000 Dealing: 0733 390000

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
United States	5	43.96	43 96	46.87	-0 99	0 38
Pacific Basin	5	45 76	45 76	48.76	+0.51	0 075
Equity Grwth Acc	5	262.2	265.3	283 7	+0.80	2 75
High Inc Accum	5	165 3	165.3xd	176.7	+0 80	4 67
High Inc Dist	5	110.7	110 7xd	118.3	+0 60	4 67
Ryl Life Int Conv	5¼	50.87	50.87	54.06	-0.03	5.00
Ryl Life Intl Grth	5¼	43 79	43 79	46.71	-0 15	0.17
Ryl Life Intl Spec	5¼	39.30	39.30xd	41 80	-0 17	0 48
UK Emerging Cos	5¼	91.94	92.95	100 4	+0.13	2 26
UK Index Tracking ♦	5¼	133.4	133.4	142.1	-0 10	4.10
European	6	74 46	74 46	80.36	-0 15	0.30
Managed	6¼	102.7	104.0	111.8	-0 18	1 43

Royal London Unit Tst Mgrs Ltd (1000)F
Royal Ldn Hse, Colchester CO1 1RA 0206 764400

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Growth	5¼	103.5	103.5	110 1	-2.10	0.66
European Growth	5¼	74.02	74.02	78.54	-0.24	1.09
Far East Growth	5¼	60.58	61.23xd	65.14	-0.65	1.32
Japan Growth	5¼	96.24	96.24xd	102.3	+1.90	0 00
Special Sits	5¼	144 1	144.1	153.2	+0.30	2.94
UK Growth	5¼	60 69	60.69	64 56	+0.26	2 79
Triton General	5¼	161 2	169.1xd	173 6	+0.20	1.66

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH. Tel: 071 – 379 – 0444.

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

	Init. Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh 031-226 3271						
American ♥	5	276.8	276.8	294.3	-5.1	2.76
(Accum Units) ♥	5	325.8	325.8	346.4	-6.0	2.76
British	5	882.7	898.4	950.5	+5.4	5.25
(Accum Units)	5	1480.3	1506.6	1594.0	+9.1	5.25
European	5	340.9	340.9	361.0	+0.5	1.43
(Accum Units)	5	369.1	369.1	391.3	+0.3	1.43
Japan	5	96.74	96.74	102.9	+1.6	-
(Accum Units)	5	97.51	97.51	103.7	+1.6	-
New Pacific	5	205.6	205.6	219.4	-0.3	1.60
(Accum Units)	5	211.2	211.2	225.3	-0.3	1.60
PEP May 6	5	160.4	162.2	171.6		3.57
Mngd Equity	5	132.8	134.2	142.0	+0.3	2.71
Mngd Equity Acc	5	140.9	142.4	150.7	+0.3	2.71
Mngd Cash	0	96.16	96.16	96.16	-	9.67
(Accum Units)	0	120.8	120.8	120.8	-	9.67
Majority Sdg	1	100.26	100.26	101.26	+0.02	9.53
Majority Sdg Acc	1	111.19	111.19	112.30	+0.02	9.53
Storebrand Intl Inv Mngrs Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries: 0277 227300 Dealing: 0277 261010						
International Mar 13	0	49.99	49.99	50.48	....	2.72
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
St Mark's Court, Horsham 0403 232323						
Equity	6	655.8	663.6	709.7	+9.7	2.64
North America	6	82.29	83.48	89.28	-0.2	0.45
Far East	6	87.47	88.54	94.70	+1.3	0.02
W'wide Bond	6	46.88	46.97	49.97	+0.0	6.90
European	6	69.35	69.76	74.61	-0.3	1.51
Equity Income	6	73.53	74.49	79.67	+1.37	5.02
Portfolio	6	60.36	60.94	65.07	+0.5	1.42
Broker Trusts						
Worldwide Growth	6	47.00	47.00	50.00		2.23
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basingview, Basingstoke, Hants 0800 525725						
American Growth	6	26.26	26.26	28.09	-0.56	0.86
Managed Assets	6	107.79	107.80	115.30	+0.05	3.27
UK Income	6	33.86	34.22	36.60	+0.13	4.52
UK Growth	6	33.93	34.26	36.65	+0.10	3.47
Worldwide Growth	6	24.20	24.20	25.89	-0.01	1.12
Sun Life Trust Mngmt Ltd (1200)H						
101, Cannon St, London EC4N 5AD						
Admin & Enq 071-606 4044 Dealing 071-606 6010						

	Bid Price	Offer Price	+ or -	Yield Gr's
M & G Securities Ltd				
Chargebond May 12	108.49		....	10.32
(Accum Units)	149.44		-0.2	10.32
NAACIF May 5	42.25		+1.0	9.36
Morgan Grenfell Investment Funds Ltd				
Exempt Funds				
UK Equity ♥ May 12	141.6	151.6	—	1.78
UK Small Cos May 12	561.1	613.9	—	3.26
Fixed Interest ♥ May 12	109.9	115.7	-	8.84
US Small Co May 12	161.2	172.5	-	0.90
Managed May 12	136.0	124.0	...	3.44
Intl Bond May 12	119.9	126.5	—	10.15
Japan May 12	60.90	64.95	—	4.52
European May 12	93.01	99.56	...	1.70
Nth American May 12	116.5	125.3	...	1.27
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
American Exempt	54.76	56.96	-0.9	1.69
European Exempt	54.60	56.99	-0.29	2.27
Fixed Int Ex May 13	48.27	49.46	-0.38	8.74
Japan Exempt	37.38	38.82	+0.50	0.79
Managed Ex May 7	47.50	49.41		4.13
SE Asia Exempt	80.69	84.73	-0.43	2.43
Sm Cos Expt May 13	38.46	40.37	+1.05	3.27
UK Eqty Ex May 13	47.01	49.36	+1.00	3.58
Phillips & Drew Fund Management Ltd				
Small Co ♥ May 7	712.80	759.15	...	4.27
Do Accum	832.15	886.26	...	4.27
Int Expt May 7	190.20	194.20	...	1.90
[illegible] Index May 7	1244.90		...	4.62
Do Accum			...	4.62
Convertible May 11	100.32	103.59	...	7.81
[illegible] May 12	751.38	760.13	+9.27	2.17
Do Accum	751.38	760.13	+9.27	2.17
Japan Index May 12	447.22	454.04	+18.35	0.93
Do Accum	448.96	455.83	+18.41	0.93
USA Index May 12			-1.37	2.96
Do Accum	1107.99	1115.34	-1.43	2.96
Eastern [illegible] May 12	925.31	939.49	+9.76	3.14
Do Accum	962.28	977.03	+10.15	3.14
[illegible] May 12	1099.37	1119.08	-15.99	3.43
Do Accum	1158.45	1179.46	-16.56	3.43
Managed Exempt May 7	113.63	115.62		5.16

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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	Bid Price	Offer Price	+ or -	Yield Gross
Norwich Union Life Insurance Soc.–Contd.				
Pensionmaster* & Unit-Linked Plan*				
Mixed Fund	472 6	497 5	+7 7	-
Ordinary Share Fund	739 9	778 8	+16 9	-
International Fund	170 7	179 7	+1.5	-
Property Fund	260 0	273 7	+0 4	-
Fixed Interest Fund	409.9	431.5	+2.8	-
Index-Linked Sec Fund	193 8	204 0	+1.3	-
Deposit Fund	281 8	296 6	+0.2	-
Norwich Units Apr 22	1116 59			-
*Prices as at May 12				
Jersey Investment Plan				
With Profits Fund	124 47	131 02	+0 03	-
Intl Equity Fund	93 64	98.57	-0 29	-
Intl Bond Fund	117 83	124 03	-0 52	-
Norwich Union Pensions Management Ltd				
Surrey Street, Norwich. NR1 3NG 0603 683335				
Group Pooled Pensions				
Balanced Managed Fd	337.71	343 42	-1 49	-
Growth Managed Fd	113 10	115 13	-0.57	-
Sentinel Managed Fd	109 50	110 89	-0.40	-
Prices as at May 12				
Pearl Assurance (Unit Funds) Ltd				
Lynch Wood, Peterborough PE2 6FY 0733 470470				
Property Dist. (Gross)	134 4	141.5		-
Property Acc (Gross)	256 2	269 7	+0.1	-
Equity (Gross)	936 7	986 0	+1.0	-
Managed (Gross)	643 8	677 7	+0 4	-
Property Acc. (Net)	122.4	128.8	...	-
Equity (Net)	215 8	227 2	+0 2	-
Managed (Net)	197 2	207 6	+0 1	-
International (net)	169 2	178 1	-0 2	-
Gilt & Fixed Interest	139 2	146 6	+0.1	-
Money Fund	138 7	146 0	+0 1	-
Mixed Fund (Cap)	122.7	129 2		-
Mixed Fund (Acc)	126.5	133 2		-
Adventurous Managed	96 9	102 0	-0 2	-
Cautious Managed	95.3	100 3	-0.1	-
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	702 6	739 6	+0 5	-
Ret Man (Series 2)	238 3	250 9	+0.2	-
Ret Cash	194 7	205 0	+0 1	-
Pens Mixed Fd (Cap)	137.3	144.6	...	-
Pens Mixed Fd (Acc)	141 6	149 1		-
Pens Stlg Fd (Cap)	103.1	108 6		-
Pens Stlg Fd (Acc)	106.3	111 9		-
Pegasus Assurance Ltd				
Broad Quay, Bristol BS1 4DJ 0272 230271				
Life Funds				
Managed Aggressive	103.4	108 9		-
Managed Balanced	101.9	107.3	+0 1	-
Managed Cautious	113.1	119 1	+0.1	-
Pension Funds				
Managed Aggressive	108.3	114.0	...	-
Managed Balance	106 9	112 6	+0 2	-
Managed Cautious	117.5	123 7	+0 1	-
For Pioneer Mutual see Swiss Pioneer				
Premium Life Assurance Co Ltd				
37–39, Perrymount Road, Haywards Heath 0444 458721				
American	145 0	153 0	-3 0	-
Building Soc. Fd	221.0	233 0		-
Balanced	286.0	302 0	+2.0	-
European	211 0	223 0	--	-
GT Managed	191 0	202.0		-
Gartmore Mngd	130 0	137.0	+1.0	-
German	136 0	144 0		-
Gilt	185 0	195 0	+2.0	-
Global	40 0	43.0	-	-
International Equity	211 0	223 0		-
Japan	177 0	187 0	+1.0	-
Leisure	48 0	51 0	-	-
Managed	51 0	54 0		-
Property	291 0	307 0	-1 0	-
UK Equity	302.0	318 0	+2.0	-
Pension Funds				
American	272.0	287.0	-4 0	-
Building Soc. Fd	236 0	249 0		-
Balanced	236 0	249 0	+1.0	-
European	231.0	244.0		-
German	133 0	140.0		-
Gilt	172.0	182 0	+3 0	-
Global	39 0	42.0		-
International Equity	184 0	194 0	-1 0	-
Japan	101 0	107 0	+1 0	-
Managed	63 0	67.0	-	-
Property	225.0	237.0	-1.0	-
UK Equity	299 0	315 0	+2.0	-

	Bid Price	Offer Price	+ or -	Yield Gross
Provident Mutual Life Assc. Assn.–Contd.				
Index Linked Gilt Init.	124.9	131.5	+0 1	-
Overseas Equity Ord	272 6	286 9	+0 4	-
Overseas Equity Init.	199.7	210 2	+0.3	-
Property Ord	220 8	232.4		-
Property Init.	161.8	170.3		-
Fixed Interest Ord	226 4	238.3	+0.8	-
Fixed Interest Init.	165 9	174.6	+0 6	-
Deposit Ord	185 4	195.2	+0.1	-
Deposit Init.	135.8	142 9	...	-
Pension Funds				
Managed Ord	477 8	502 9	+0.3	-
Managed Init	350 1	368 5	+0.2	-
Equity Ord	754 0	793 7	+0.1	-
Equity Init.	552.5	581 6	+0.1	-
Pen Ind Lkd Gilt Ord	183.8	193.5	+0 2	-
Pen Ind Lkd Gilt Init.	140 7	148.1	+0.2	-
Overseas Equity Ord	309.9	326.2	+0.5	-
Overseas Equity Init.	227 1	239 1	+0 4	-
Property Ord.	279.0	293 7		-
Property Init.	204 4	215 2		-
Fixed Interest Ord	287.4	302.5	+1.1	-
Fixed Interest Init.	210 6	221.7	+0 9	-
Deposit Ord.	265.3	279.3	...	-
Deposit Init.	194 4	204 6	...	-
Prudential Assurance Co				
Holborn Bars, London EC1N 2NH 071-405 9222				
Prufund				
Managed May 13	269 9	281.21	+4 0	-
Prudential Corporate Pension Funds				
1 Stephen St. London W1P 2AP 071-548 3281				
Prudential Managed Funds				
Discretionary May 6	£190 40	198 43		-
Equity May 6	£220 77	229.31	-	-
International May 6	£27.63	28.22		-
Intl Bond May 6	£14 33	14.51	...	-
Fixed Int May 6	£103 91	105 08		-
Index Linked May 6	£74.21	75 15	...	-
Property May 6	£109.35	115.39	-	-
Cash May 6	£30.3763	30.3763		-
Pru-Linked Retirement Plan				
Managed May 12	472.9	492.7	+9.4	-
Cash May 12	279.5	291.2	+0.3	-
Prudential Pension Investment Account				
Pens Mngd May 14	189 7	204 1	+0.3	-
Pens UK EQ May 14	343 4	370 2	+0 5	-
Pens Intl May 14	198.7	213.3	+0.3	-
Pens Global Eqy May 14	106.4	112.0	+0 2	-
Pens Fixed May 14	238.0	251.3	+0 8	-
Pens Index Lk May 14	191.7	202 4	..	-
Pens Property May 14	89 5	94.3	...	-
Pens Cash May 14	182.3	192.1	...	-
Money Purchase Plan				
Discretionary May 12	104.5	112 0	-0.5	-
Equity May 12	109 7	117 9	-0.6	-
International May 12	90 3	95.8	-0 2	-
Global Equity May 12	103 7	111.1	-0.5	-
Intl Bond May 12	96.5	101.5	-0 1	-
Fixed Interest May 12	110 5	116.2	+0.1	-
Index Linked May 12	101 5	106 8	+0.1	-
Property May 12	98 8	108 4	....	-
Cash May 12	103.9	109 0	...	-
Prudential Individual Life Funds				
1 Stephen St. London W1P 2AP 071-548 3287				
Series I Life Funds				
Managed	600.5	632.2	+0.3	-
Equity	1265.1	1331 7	+1.8	-
Fixed Interest	486 8	512.5	+0 5	-
Property	383 1	403.3	+0 1	-
Cash	341 4	359 4	+0 1	-
International	397 5	418.5	-0 9	-
Series II Life Funds				
Managed	581.5	612.2	+0.3	-
Equity	1221.8	1286 2	+1.7	-
International	385 1	405.4	-0 9	-
Fixed Intl	468.5	493.2	+0 4	-
Property	368 7	388.2	...	-
Cash	329 0	346.4	...	-
Pacific Basin	191 0	201 1	+1.5	-
North American	150.2	158.2	-2.3	-
European	184 8	194.6	-0.8	-
Holborn Balanced Gwth.	118.5	124 8	...	-
Holborn Strategic Gwth.	117 7	123 9		-
Prudential Individual Pension Funds				
1 Stephen St, London W1P 2AP 071-548 3287				
Managed	618.9	651.5		-
Equity	909 4	957.3	+0.7	-

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

OFFSHORE INSURANCES

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

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	Bid Price	Offer Price	+ or -	Yield Gross
Asset Global Funds Ltd (1200)				
Victory Hse, Prospect Hill, Douglas, IoM 0624 620097				
European Equity ... 5	14 45	15.51	+0 14	-
UK Gilt ... 5	10 42	10 97	+0 01	-
Intl Equity ... 5	14.734	15 71	-0.30	-
International Bond ... 5	5 104	5.39		-
Ashburton Managed ... 5	0 9895	1 0425	[illegible]	-
European Bond ... 5	1.0299	1.0812	[illegible]	-
Sterling Cash Inc ... 5	0.9816	1.0307		-
CML Fund Managers (IoM)				
Clerical Medical Hse, Douglas, IoM 0624 625590				
High Income ... 5	0.4874	0.5131	[illegible]	10 49
CML Curr Portfolio Fund				
UK ... 5	£- 1.0904	1.1679	[illegible]	-
USA ... 5	£- 1.3528	1.7164	[illegible]	-
Japan ... 5	£- 0.4833	5102	[illegible]	-
Equity & Law Intl Fund Mngrs Ltd				
Victory Hse, Prospect Hill, Douglas IoM 0624 677877				
Total Income Fd ... 5	96.63	101.70	+0 02	10 2
Gartmore Fund Managers (IoM)				
PO Box 32, Douglas, IoM 0624 627618				
Intl Grth ... 5¼	499.7	535.5	-1	0 9
Leopold Joseph Fund Mngrs (IoM) Ltd				
PO Box 52 Athol St Douglas IoM 0624 661020				
LJ International 5¼	96.95	104.2	-0.30	-
Mercury Fund Managers IoM Ltd				
11 Hall Street, Douglas, IoM 0624 662255				
Merc IoM Fund ... 5	107.2	114 4	(d)	6.6
Merc Intl Bond ... 5	50.15	52.73	(d)	8 4
Sun Life Management (IoM) Ltd				
PO Box 178, Douglas, IoM 0624 622444				
Secure High Income ... 6	1 0430	1.1183	[illegible]	8.05
Unibank Scandinavian Fund Ltd				
23 Bucks Road, Douglas, IoM 06246 26484				
Scandinavia Fd ... 5	-	149 85	-	1.0

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JERSEY (SIB RECOGNISED)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Citibank (CI) Ltd "Citifunds"						
Short term Investment Funds						
North E May 7				117.559	+0 268	-
Equity Funds						
Japan Equity May 14				$7 729	+0 412	-
US Eq Nth May 11				$22.878	+0.674	-
US Eq Tech May 11				$20 136	+1.366	-
Chicare May 12				$35.104	+1 035	-
Bond Funds						
GNMA Bond May 11			$14 784	14 790	-0 038	-
HYB (A) May 11				$90.591	[illegible]	-
EBC Trust Company (Jersey) Ltd						
EBC Asset Traded Currency Fund Ltd*						
Income			$15 21	15 676	+0 031	2.74
Capital			$23.67	24.390	-0 052	5.50
*Offer price includes 3% prelim. charge						
International Income Fund						
Eurobd Long Term*			$33.21	34 7243	+0 0829	4.87
* Offer Price includes 3½% Initial Charge						
Equitilink International Mngt Ltd						
First Aust Prime Inc Inv Co Ltd NAV May 7 C$12 94xd						
First Aust Prime Inc Inv Co Ltd NAV May 7 US$10 79xd						
NAV Diluted to reflect exercise of all Wrnts C$12.59xd US$10.50xd						
Fidelity Investment (CI) Ltd						
Sterling American			£2.489	2.620	-0 018	-
Fleming Group						
Robert Fleming Management (Jersey) Ltd						
Deutschland Inv Co NAV			DM16 53			-
Foreign & Colonial Mngt (Jersey) Ltd						
Foreign & Colonial Reserve Asset Fd Ltd						
US$ Cash			$10 68			-
Multicurrency Cash			$16.41		(z)	-
Sterling Cash			£11.84		+0 01	-
US$ Bonds			$14 78		+0 03	-
Multicurrency Bonds			$19.67		+0 11	-
Sterling Bonds			£13.28		-0.01	-
D Mark Bonds			DM10 47			-
Ecu Bonds			Ecu11 76		+0 01	-
UK Equities			£11.06		+0 06	-
US Equities			$16.60		-0 01	-
Japanese Equities			Y641		-0.01	-
Global Equities			$10.92		(z)	-
John Govett Management (Jersey) Ltd						

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

IRELAND

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar stabilises after losses

THE dollar stabilised against leading currencies on the foreign exchange markets yesterday after suffering heavy losses in European trading on Tuesday, *writes James Blitz.*

Comments about trade policy from the US Treasury Undersecretary had sent the dollar down to Y130.30 in late American trading the previous day. But in overnight trading in Asia the dollar managed to resist further falls, and by the end of yesterday's European trading it had slipped only a little further to Y130.25. The US unit was helped by a surprising 0.9 per cent rise in April retail sales announced yesterday, dampening speculation of an imminent cut in the Federal Reserve's funds rate.

However, dealers said a downward revision in March retail sales, to a 1 per cent fall from a 0.4 per cent decline, had tempered dollar bullishness. The bears were also quick to point out that figures for M2 money supply growth are due out today and could force the Fed's hand on interest rates. The growth of M2 money supply, a crucial determinant of interest rate policy, has been extremely low in recent weeks.

D-Mark holders had a mixed day. The German currency was unable to gain from the dollar weakness and closed fractionally down against the US unit at DM1.6220. It recouped early losses against other currencies in the European Monetary System, but was still on the defensive in late trading because of continued worries of more industrial unrest in support of pay claims.

One beneficiary was sterling. In spite of the adage that a weaker dollar usually means a weaker pound, the UK currency managed to hold on to its recent gains against the D-Mark. Sterling ended ¼ pfennig stronger at DM2.9425. The D-Mark also lost ground to the Swiss franc. Anticipation that Switzerland may link itself to the EMS this weekend pushed the Swiss unit up to DM108.40 per 100 Swiss francs from DM107.82.

The French franc stole the limelight in Europe yesterday morning, continuing its upward march against the D-Mark and crossing its central rate against the German currency for the first time in 18 months. It was briefly quoted at FFr3.3535 per D-Mark, crossing the central rate of FFr3.3539. By the close the D-Mark had fought back to FFr3.3565, roughly the same finish as the day before.

Analysts predict that the franc will have difficulty breaching its central rate more positively because of market fears that the French authorities will respond to this by cutting interest rates. Mr Michel Sapin, the French finance minister, tried to offset those fears yesterday by saying that an interest rate cut at the central rate was not necessary, and it would be right to encourage the franc to rise further.

In New York the dollar fell to DM1.6092 and Y129.60.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu May 13	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	178.735	170.798	-4.44	5.93	73
Spanish Peseta	133.631	128.346	-3.95	5.39	68
Belgian Franc	42.4032	42.3307	-0.17	1.40	13
Dutch Guilder	2.31643	2.31455	-0.08	1.31	9
D-Mark	2.05586	2.05646	0.03	1.19	5
French Franc	6.89509	6.90552	0.15	1.07	-3
Sterling	0.696904	0.698563	0.24	0.98	-6
Irish Punt	0.767417	0.769510	0.27	0.95	-8
Italian Lira	1538.24	1547.66	0.61	0.61	-25
Danish Krone	7.84195	7.93788	1.22	0.00	-51

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
Adjustment calculated by Financial Times.

£ IN NEW YORK

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

	£	$
Hong Kong	14.0400 - 14.0570	7.7375 - 7.7395
Iran	2580.00*	1440.00*
Korea(Sth)	1405.75 - 1428.40	777.50 - 786.70
Kuwait	0.53080 - 0.53180	0.29270 - 0.29300
Luxembourg	60.45 - 60.55	33.30 - 33.40
Malaysia	4.5670 - 4.5785	2.5200 - 2.5220
Mexico	5479.80 - 5491.90	3086.50 - 3087.50
N Zealand	3.3975 - 3.4020	1.8730 - 1.8755
Saudi Ar	6.7795 - 6.8565	3.7495 - 3.7505
Singapore	2.9700 - 2.9775	1.6370 - 1.6390
S Af (Cm)	5.1575 - 5.1695	2.8485 - 2.8515
S Af (Fn)	6.1495 - 6.2555	3.3900 - 3.4485
Taiwan	45.25 - 45.45	24.95 - 25.05
U.A.E.	6.6380 - 6.7150	3.6715 - 3.6735

*Floating rate. Iran Official rate £118.50 $66.30

POUND SPOT - FORWARD AGAINST THE POUND

May 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8110 - 1.8205	1.8130 - 1.8140	0.97-0.95cpm	6.35	2.86-2.83pm	6.28
Canada	2.1810 - 2.1920	2.1860 - 2.1870	0.66-0.62cpm	3.51	1.31-1.25pm	2.34
Netherlands	3.3050 - 3.3175	3.3050 - 3.3150	⅛-parcpm	0.45	⅛-⅛pm	0.30
Belgium	60.40 - 60.70	60.45 - 60.55	4-1cpm	0.50	11-6pm	0.56
Denmark	11.3375 - 11.3725	11.3575 - 11.3675	⅛-⅛oredis	-0.59	⅛-2⅛dis	-0.33
Ireland	1.1000 - 1.1040	1.1000 - 1.1010	0.02dis-0.01pm	-0.05	0.06-parpm	0.11

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

May 13	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Swiss Franc	9¼ - 9½	9½ - 9¼	9¼ - 9⅛	9⅛ - 8⅞	8¾ - 8⅝	8⅝ - 8½
D-Mark	9⅝ - 9½	9⅞ - 9¾	9¾ - 9⅝	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½
French Franc	9¾ - 9⅝	9¾ - 9⅝	9¾ - 9⅝	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½
Italian Lira	12 - 10	12½ - 11⅝	12½ - 11⅝	12⅛ - 11⅝	12⅛ - 11⅞	12⅛ - 12⅛
Belgian Franc	9⅛ - 9⅜	9⅝ - 9⅛	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½
Yen	4⅞ - 4⅝	4⅝ - 4⅜	4⅝ - 4⅜	4⅝ - 4⅜	4⅝ - 4⅜	4⅝ - 4⅜
Danish Krone	10 - 9¾	10 - 9¾	10¼ - 10	10¼ - 10	10¼ - 10	10¼ - 10
Asian $Sing	2⅛ - 2⅛	2⅜ - 2⅛	3¼ - 3	3¼ - 3¼	3⅜ - 3⅜	3¼ - 3⅛
Spanish Peseta	12⅝ - 12¼	12⅝ - 12¼	12⅝ - 12¼	12⅝ - 12¼	12⅝ - 12¼	12⅝ - 12¼

Long term Eurodollars: two years 5⅛-5⅜ per cent; three years 6⅛-6 per cent; four years 6⅜-6⅜ per cent; five years 7-6⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

May 13	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta.	Ecu
£	1	1.813	2.942	236.2	9.875	2.710	3.310	2214	2.186	60.50	183.6	1.428
$	0.552	1	1.623	130.3	5.447	1.495	1.826	1221	1.206	33.37	101.3	0.788
DM	0.340	0.616	1	80.29	3.357	0.921	1.125	752.5	0.743	20.56	62.41	0.485
YEN	4.234	7.676	12.46	1000.	41.81	11.47	14.01	9373	9.255	256.1	777.3	6.046
F Fr.	1.013	1.836	2.979	239.2	10.	2.744	3.352	2242	2.214	61.27	185.9	1.446
S Fr.	0.369	0.669	1.086	87.16	3.644	1	1.221	817.0	0.807	22.32	67.75	0.527
N Fl.	0.302	0.548	0.889	71.36	2.983	0.819	1	668.9	0.660	18.28	55.47	0.431
Lira	0.452	0.819	1.329	106.7	4.460	1.224	1.495	1000.	0.987	27.33	82.93	0.645
C$	0.457	0.829	1.346	108.1	4.517	1.240	1.514	1013	1	27.68	83.99	0.653
B Fr.	1.653	2.997	4.863	390.4	16.32	4.479	5.471	3660	3.613	100.	303.5	2.360
Pta	0.545	0.987	1.602	128.6	5.379	1.476	1.803	1206	1.191	32.95	100.	0.778
Ecu	0.700	1.270	2.060	165.4	6.915	1.898	2.318	1550	1.531	42.37	128.6	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

LONDON (LIFFE)

CHICAGO

PARIS

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls June	Calls September	Calls December	Puts June	Puts September	Puts December
106	-	-	-	0.01	0.12	-
107	1.59	-	2.41	0.08	0.27	0.52
108	0.67	1.32	-	0.52	0.51	0.84
109	0.10	0.75	1.23	-	0.95	1.27
110	0.02	0.39	0.83	-	1.56	-
111	-	0.20	0.53	-	-	-
Open Int.	125,420	49,129	10,840	95,346	32,785	12,663

Estimated volume 38,835 Total Open Interest 326,203

POUND - DOLLAR

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.8135	1.8039	1.7851	1.7609	1.7228

BASE LENDING RATES

	%		%		%
Adam & Company	10	Crédit Lyonnais	10	McDonnell Douglas Bnk.	10
Allied Trust Bank	10	Cyprus Popular Bk	10	Midland Bank	10
AIB Bank	10	Duncan Lawrie	10	Mount Banking	10.5
● Henry Ansbacher	10	Equatorial Bank plc	10	NatWestminster	10
B & C Merchant Bank	10.5	Exeter Bank Limited	11	Northern Bank Ltd	10
Bank of Baroda	10	Financial & Gen. Bank	10	Nykredit Mortgage Bank	11
Banco Bilbao Vizcaya	10	First National Bank Plc	14	Provincial Bank PLC	14
Bank of Cyprus	10	● Robert Fleming & Co.	10	Roxburghe Bank Ltd.	11.5
Bank of Ireland	10	Robert Fraser & Ptnrs.	10.5	Royal Bk of Scotland	10
Bank of India	10	Girobank	10	● Smith & Williamson Secs.	10
Bank of Scotland	10	● Guinness Mahon	10	Standard Chartered	10
Banque Belge Ltd	10.5	● Hambros Bank	10	TSB	10
Barclays Bank	10	Hampshire Trust Plc	13.5	Unibank plc	10
Benchmark Bank	11	Heritable & Gen Inv Bnk.	10	● United Bk of Kuwait	10
Brit Bk of Mid East	10	● Hill Samuel	10	Unity Trust Bank Plc	10
● Brown Shipley	10	C. Hoare & Co.	10	Western Trust	10
CL Bank Nederland	10	Hongkong & Shanghai	10	Westpac Bank Corp.	10.5
Citibank NA	10	Julian Hodge Bank	10	Whiteaway Laidlaw	10
City Merchants Bank	10	● Leopold Joseph & Sons	10	Yorkshire Bank	10
Clydesdale Bank	10	Lloyds Bank	10		
Co-operative Bank	10	Meghraj Bank Ltd	10		
Coutts & Co	10				

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Rates ease slightly

STERLING'S good performance on foreign exchange markets and promising figures on UK inflation led to a slight easing of rates in the sterling money markets yesterday.

UK clearing bank base lending rate
10 per cent
from May 5, 1992

Traders were impressed that sterling had made gains against the D-Mark in spite of the dollar's heavy losses the previous day. Tuesday's lower than expected figure for core inflation also continued to have an effect on the market.

On Tuesday, the index of prices of manufactured products for domestic consumption rose in the year to April by 3.8 per cent, leading to suggestions that this Friday's RPI figure could be smaller than forecast.

One analyst said that a third reason for optimism was the bullish performance of the French franc yesterday, which momentarily crossed its central rate against the D-Mark. "The market feels that there is no reason why sterling shouldn't do the same," he said. Sterling has been nudging its central rate of DM2.95 for nearly a week.

As a result, period rates ended the day a fraction lower. Three-month money, a key indicator of the market's view on future base rates, ended at 10$\frac{1}{16}$ per cent, down $\frac{1}{16}$ from Tuesday's close. At the long end, both nine-month and one-year money ended the day at 10 per cent, also down $\frac{1}{16}$ from Tuesday's close.

The futures markets showed less inclination to believe that rates might be cut. June short sterling ended the day at 89.95, continuing to show heavy resistance at 89.99. The volume for September trading was far higher than June at 11,878 lots, and the contract closed at 90.30, indicating the market's view that base rates in September will be 9.70 per cent.

In the discount market, trading was taken up easily. In the morning, the Bank of England forecast a shortage of £800m. In early operations the Bank purchased £150m of bills for resale to the market on June 1 at 9$\frac{15}{16}$ per cent.

In further operations, the Bank purchased £10m of Band-2 bank bills at 9¾ per cent and £140m for resale to the market on June 1 at 9$\frac{15}{16}$ per cent. The forecast was later revised to a shortage of £750m.

In the afternoon the Bank purchased £186m of Band-1 bank bills at 9¾ per cent and £14m of Band-2 bank bills at 9¾ per cent. The Bank provided late assistance of around £150m, leaving a shortfall of around £100m.

FT LONDON INTERBANK FIXING

(11.00 a.m. May 13) 3 months US dollars		6 months US Dollars	
bid 3¾	offer 3⅞	bid 3⅞	offer 4

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

4pm					
Prime rate	6½	One month	3.41	Three year	5.73
Broker loan rate	6	Two month	3.62	Five year	6.62
Fed.funds	3$\frac{13}{16}$	Three month	3.68	Seven year	6.99
Fed.funds at intervention	-	Six month	3.82	10-year	7.33
		One year	4.08	30-year	7.86
		Two year	5.10		

May 13	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	9.60-9.65	9.70-9.80	9.70-9.80	9.70-9.80	9.70-9.80	9.75
Paris	9$\frac{11}{16}$-9$\frac{13}{16}$	9$\frac{13}{16}$-9$\frac{15}{16}$	9⅞-10	9⅞-10	9⅞-10	9.60
Zurich	7⅞-8⅛	9⅛-9⅜	-	8⅞-9⅛	-	-
Amsterdam	9.31-9.38	9.47-9.54	-	9.48-9.55	-	-
Tokyo	4$\frac{13}{16}$-4$\frac{15}{16}$	4$\frac{11}{16}$-4$\frac{13}{16}$	-	4$\frac{11}{16}$-4$\frac{13}{16}$	-	-
Milan	12¼-12½	12$\frac{5}{16}$-12$\frac{7}{16}$	-	12⅜-12⅝	-	-
Brussels	9⅛-9½	9$\frac{7}{16}$-9⅝	-	9½-9⅝	-	-
Dublin	10¼-10⅜	10$\frac{3}{16}$-10$\frac{5}{16}$	10¼-10⅜	10¼-10⅜	10¼-10⅜	-

LONDON MONEY RATES

May 13	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	10¼	10⅛	10⅛	10⅛	10$\frac{1}{16}$	10$\frac{1}{16}$
Interbank Bid	9½	9⅞	10	9⅞	9$\frac{15}{16}$	9$\frac{15}{16}$
Sterling CDs	-	-	10$\frac{1}{16}$	10	9$\frac{15}{16}$	9$\frac{15}{16}$
Local Authority Deps	9$\frac{15}{16}$	10$\frac{1}{16}$	10$\frac{1}{16}$	10$\frac{1}{16}$	10$\frac{1}{16}$	10
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	9⅞	9$\frac{15}{16}$	-	-	-	-
Company Deposits	-	-	10⅛	10⅛	10⅛	10$\frac{1}{16}$
Finance House Deposits	-	-	10$\frac{1}{16}$	10$\frac{1}{16}$	10	9$\frac{15}{16}$
Treasury Bills (Buy)	-	-	9$\frac{13}{16}$	9$\frac{13}{16}$	9$\frac{13}{16}$	-
Bank Bills (Buy)	-	-	9$\frac{13}{16}$	9$\frac{13}{16}$	9⅞	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	3.70	3.78	3.88	4.35
SDR Linked Dep. Offer	-	-	6⅜	6⅜	6$\frac{5}{16}$	6⅝
SDR Linked Dep. Bid	-	-	6⅜	6¼	6⅜	6½
ECU Linked Dep. Offer	-	-	10$\frac{3}{16}$	10$\frac{3}{16}$	10$\frac{3}{16}$	10⅛
ECU Linked Dep. Bid	-	-	10$\frac{1}{16}$	10$\frac{1}{16}$	10$\frac{1}{16}$	10

Treasury Bills (sell): one-month 9⅝ per cent; three months 9$\frac{11}{16}$ per cent; six months 9⅝ per cent; Bank Bills (sell): one-month 9$\frac{23}{32}$ per cent, three months 9½ per cent, Treasury Bills: Average tender rate of discount 9.3907 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day April 30, 1992. Agreed rates for period May 26, 1992 to June 23, 1992, Scheme I: 11.75 p.c., Schemes II & III: 11.93 p.c. Reference rate for period April 1, 1992 to April 30, 1992, Scheme IV&V: 10.685 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 11 from May 1, 1992. Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7 per cent; one-three months 9½ per cent, three-six months 9 per cent; six-nine months 9 per cent; nine-twelve months 9 per cent. Under £100,000 7 per cent from Sept 5, 1991. Deposits withdrawn for cash 5 per cent.

MONEY MARKET FUNDS

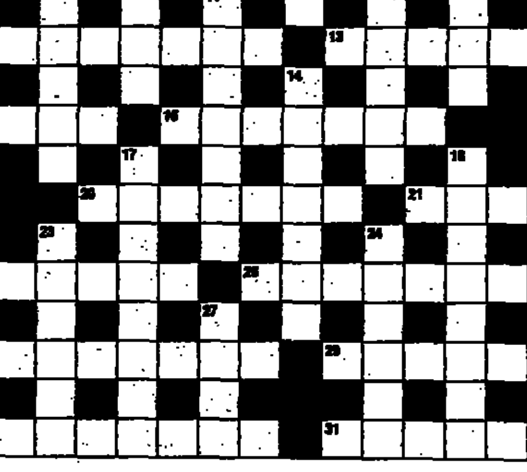
Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

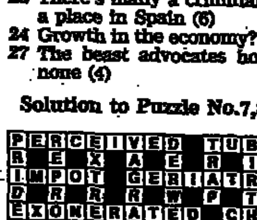
No.7,847 Set by VIXEN



ACROSS
1 Emphasise need for second lock (6)
4 Does some shooting to make a collection of crockery (8)
9 Dreadful rotter still (6)
10 He'll move the ordinary seaman into decent accommodation (8)
12 A developing area (4-4)
13 Environmentally responsible English dramatist (6)
15 The Pennine Way includes a number (4)
16 Those going down a point – or several (7)
20 More cross grain off with little hesitation (7)
21 Americans may well find this a good place for a break (4)
25 Uncovers remains (6)
26 Sound script for correction (8)
28 A bit can fit – or otherwise (8)
29 A desperado in the main (6)
30 The model colours (8)
31 Neat controls (6)

DOWN
1 A step taken before conservationists can get clamorous (8)
2 Shy about dressing (8)
3 A French writer's wrongful arrest (6)
5 A monster will make a certain amount of progress (4)
6 Take a drink with newsmen to check (8)
7 Proceeded to bring charges in extremity (6)
8 Blast the Continental weed! (6)
11 Weapon produced quietly on raid being organised (7)
14 The dream of one held in honour (7)
17 Corrupted, but decent if reformed (8)
18 Reduce the rise of vermin in time (8)
19 Study progress, though not in favour of meeting (8)
22 Clubs for the personnel (6)
23 There's many a criminal with a place in Spain (6)
24 Growth in the economy? (6)
27 The beast advocates housing none (4)

Solution to Puzzle No.7,846



WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | GERMANY | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | ITALY | SOUTH AFRICA | AUSTRALIA | HONG KONG | MALAYSIA | SINGAPORE | JAPAN

[illegible]

CANADA

TORONTO

4:00 pm prices May 13

[illegible]

MONTREAL

4:00 pm prices May 13

[illegible]

INDICES

NEW YORK

DOW JONES	May 13	May 12	May 11	May 8	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	3391.98	3385.12	3397.58	3369.41	3397.58 (11/5)	3172.41 (2/1)	3397.58 (11/5/92)	41.22 (2/7/32)
Home Bonds	99.93	99.82	99.71	99.54	99.93 (13/5)	98.41 (20/3)	99.93 (13/5/92)	54.99 (1/10/81)
Transport	1405.27	1406.92	1402.28	1399.66	1467.68 (20/2)	1301.57 (8/4)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	213.95	213.42	213.88	214.01	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 3414.17 (3414.63) Low 3362.93 (3361.33)

STANDARD AND POOR'S

	May 13	May 12	May 11	May 8	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	416.45	416.29	418.49	416.05	420.77 (15/1)	394.50 (8/4)	420.77 (15/1/92)	4.40 (1/6/32)
Industrials	491.82	492.03	495.32	492.50	499.27 (15/1)	470.91 (8/4)	499.27 (15/1/92)	3.62 (21/6/32)
Financial	35.80	35.54	35.57	35.14	35.80 (13/5)	32.40 (8/4)	35.80 (13/5/92)	8.64 (1/10/74)
NYSE Composite	229.44	229.45	230.47	229.20	231.85 (15/1)	217.92 (8/4)	231.85 (15/1/92)	4.46 (25/4/42)
Amex Mkt. Value	393.75	393.46	395.84	394.12	418.99 (12/2)	380.90 (8/4)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	582.38	583.96	587.13	585.76	644.92 (12/2)	560.33 (28/4)	644.92 (12/2/92)	54.87 (31/10/72)

	May 8	May 1	Apr 24	year ago (approx.)
Dow Industrial Div. Yield	2.77	2.79	2.80	3.14

	May 6	Apr 29	Apr 22	year ago (approx.)
S & P Industrial div. yield	2.61	2.62	2.63	2.78
S & P Indl. P/E ratio	29.29	28.96	28.80	18.57

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day
Marion Merrell	5,567,000	32	- ¼
Limited Inc	3,804,900	22½	+ ⅛
Coca Cola	3,021,300	43¼	+ ⅜
Citicorp	2,117,900	19⅝	+ ⅞
Glaxo	1,910,100	27½	- ½
BankAmerica	1,645,600	49⅝	+ 1¼
Eastman Kodak	1,487,000	41⅝	+ 1½
Telefonos	1,396,300	56¼	- ¼
IBM	1,388,200	92¼	- 1¼
Philip Morris	1,324,800	78¼	- ⅛

TRADING ACTIVITY

† Volume (Millions)	May 13	May 12	May 11
New York SE	171.610	192.810	156.730
Amex	12.579	1.526	12.035
NASDAQ	(u)	162.342	141.067
NYSE			
Issues Traded	2,257	2,260	2,269
Rises	873	731	1,084
Falls	807	978	640
Unchanged	577	551	545
New Highs	97	92	94
New Lows	12	19	11

CANADA

TORONTO	May 13	May 12	May 11	May 8	1992 HIGH	1992 LOW
Metals & Minerals	3103.71	3089.15	3069.33	2995.50	3238.87 (16/1)	2828.26 (8/4)
Composite	3404.23	3427.89	3427.23	3374.40	3666.00 (16/1)	3318.10 (8/4)
MONTREAL Portfolio	1787.15	1801.88	1795.29	1763.88	1937.59 (16/1)	1727.04 (8/4)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed (u) Unavailable.

[illegible]

US Special Intl (3/1/70) (S)	511.1*	507.0	507.1	504.1	[illegible]
Euro Top-100 (26/6/90)	969.22	968.95	971.92	970.51	[illegible]

**Saturday May 9 Taiwan Weighted Price 4428.97, Korea Comp Ex [illegible]
‡ Subject to official recalculation.
Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen [illegible] and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and [illegible] Closed (u) Unavailable

TOKYO - Most Active Stocks

Wednesday 13 May 1992

	Stocks Traded	Closing Prices	Change on day
Nippon Mining	1.6m	480	+25
Okamoto Inds	1.3m	1,550	+130
Morinaga Milk	1.1m	856	+17
Unitika	0.7m	463	+53
Japan Metal	0.7m	711	+5
Sumitomo Chem	7.0m	458	+20
Jpn Storage batt	6.3m	1,070	+50
Cosmo Oil	4.7m	703	+23
Toyama Chem	4.7m	740	+83
Kao Corp	4.0m	1,140	+40

Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. [illegible]

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4:00 pm prices May 13

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	12¼	AAR Corp	0.48	3.5	16	75	14	13⅝	13¾	+⅛
26	20⅞	A L Labs A	0.16	0.6	76	217	23½	22¾	23	-¼
68¾	56	AMP Inc	1.52	2.4	25	942	62¾	61⅞	61⅞	-1¼
80¼	64¼	AMR				1803363	68⅞	67⅞	68½	-¼
2⅞	1⅜	ARX			2	34	1⅞	1⅞	1⅞	
53½	40¼	ASA	2.00	4.7	12	573	43	42⅛	42⅞	+⅜
68¾	58⅛	Abbott Lab	1.20	1.8	24	3318	66⅞	65⅞	66	-½
13⅞	12	Abitibi Pr	0.42	3.4	6	22	12⅜	12¼	12⅜	
11⅝	10⅝	ACM Gvt In x	0.96	8.9		900	10¾	10⅝	10¾	
10⅛	9⅛	ACM Gvt Opp x	0.80	8.5		185	9½	9⅜	9⅜	
9½	8½	ACM Gvt Sp	0.80	9.0		465	9	8¾	8⅞	
11¼	10⅛	ACM Gvt Se	0.96	9.0		452	10¾	10½	10⅝	
9½	8⅝	ACM Man x	0.95	10.1		427	u9½	9⅜	9⅜	
12⅞	10⅝	ACM Mgd x	1.08	9.5		48	11⅜	11¼	11⅜	+⅛
11¼	6¼	Acme Cleve	0.40	5.7	30	324	7	6⅝	7	+½
6¾	4½	Acme Elect			4	6	5⅛	5⅛	5⅜	+⅜
33¼	18⅞	Acuson			14	1045	23⅜	22¾	23	+⅛
18½	18⅛	Adams Expr x	0.48	2.5	0	46	18⅞	18⅝	18⅞	+⅛
15½	13	Adobe 12Pf	2.40	16.0		6	14⅞	14⅞	15	
5¾	4½	Adobe Res			2	56	6⅛	5	5	
49⅛	39	Ad Micro	3.00	6.8		243	44⅞	44	44⅛	-1
21½	14⅝	Ad Micro P	3.00	17.1		75386	17⅞	17⅜	17½	-⅝
9⅛	5	Advest Grp	0.16	2.4	67	28	6⅞	6¾	6¾	
71⅛	66¼	Aegon ADR x	1.50	2.3		82100	66⅛	66⅛	66¼	
47	39	Aetna Li	2.76	6.9		83510	41⅛	40	40	-1¼
12	8⅞	Ahli A x	0.24	2.2	72	105	10⅞	10¾	10⅞	+⅛
32⅞	24	Allac x	0.44	1.6	14	610	28⅛	27⅞	28⅛	+⅜
19⅛	15¼	Ahmanson x	0.88	5.1		71267	17⅜	17	17⅛	-⅛

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Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

- X - Y - Z -

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
82¼	68½	Xerox	3.00	4.1	18	1707	73¼	72⅛	72⅞	+⅝
53½	50½	Xerox4.125				2	53	52½	53	+1
28½	24¾	Xtra 1.94 x	1.94	7.1		709	27¼	27	27¼	+⅞
37	28½	Xtra Corp x	0.80	2.3	12	405	34⅝	33½	34⅝	+1⅛
27	25¼	Yankee Egy	1.60	6.0	12	14	26⅝	26⅝	26⅝	-⅛
1½	½	Zapata			26	172	1¼	1⅛	1⅛	
11¼	6⅞	ZenithElec			4	336	8¼	8⅛	8⅛	-⅛
18¾	14½	Zenith Nat	1.00	5.6	8	474	u18⅝	18	18¼	+¼
7⅛	6	Zenix Inc	0.85	12.3		302	7	6⅞	6⅞	-⅛
13⅛	11⅛	Zero Corp x	0.40	3.5	17	287	11½	11⅛	11½	
38	32⅜	Zurn Ind	0.88	2.7	14	79	32¾	d32⅛	32¾	+¼
14⅞	12¾	Zweig Fund	1.16	9.0		207	12⅞	d12¾	12⅞	
11	9⅞	Zweig Totl	1.00	9.6		778	10⅝	10⅛	10½	+⅛

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices May 13

NASDAQ NATIONAL MARKET

4:00 pm prices May 13

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		29	2318	27	26	26½	-⅛
Xoma Corp		10	2285	17¼	16¼	16⅞	
Yellow Fr	0.94	25	857	32⅛	31⅝	31¾	-⅛
York Rsch		54	4094	7	6¼	6½	+⅛
ZionsUtah	1.44	10	65	51¼	50½	50½	-½

FINANCIAL TIMES Thursday May 14 1992

AMERICA

Economic data has little effect on Dow

Wall Street

US EQUITIES largely ignored the day's economic news and traded in a narrow range yesterday, writes Karen Zagor in New York.

The Dow Jones Industrial Average closed just 6.86 higher at 3,391.98 after light volume for the New York SE of less than 173m shares. Rises had a *slim edge on declines by 860 to* 809. The Standard & Poor's 500 was 0.16 up at 416.45 while the Nasdaq composite eased 1.57 to 582.39.

The market failed to respond to two sets of economic data for April. The 0.2 per cent rise in the consumer price index confirmed low inflation prospects, *while the 0.9 per cent* increase in retail prices was consistent with moderate economic growth.

Although it is still possible *that the Federal Reserve will* cut interest rates, the unexpectedly strong retail price report reduced expectations of an imminent easing. There was some confusion following the Fed's aggressive adding operation in the morning, when it arranged overnight system repurchase agreements. The strength of the open market intervention was unexpected, but it was *generally seen as a* technical move.

Marion Merrell Dow led big board trading, dipping \$½ to \$32. Late on Tuesday, 16m *shares were priced at \$32 a* share. A group of shareholders, including the company's chairman emeritus, will offer 12.8m shares of the total in the US, *with the remainder offered* abroad. Delivery is scheduled for May 19. The company will not receive any proceeds from the offering.

Eastman Kodak rose \$1½ to \$41⅝. At the annual meeting Mr Kay Whitmore, chairman and chief executive, predicted improved sales and earnings in the second half of this year.

Polaroid, Kodak's main US rival, gained \$⅞ to \$25⅝ after Prudential Research increased its second-quarter estimate to *50 cents a share from 37 cents.* At its annual meeting a day earlier, a proposal to remove Polaroid's so-called "poison pill" takeover defence was *quashed. The defeat, however,* was narrower than the previous year when a similar suggestion was also rejected.

The Limited regained \$⅝ to \$22¼ *in heavy trading after* dropping \$2⅝ on Tuesday on disappointing first-quarter results.

A number of banks firmed in *active afternoon trading*, including Citicorp, up \$¾ at \$19¾, BankAmerica, \$1⅛ higher at \$49⅝, Chase Manhattan, \$½ firmer at \$30⅛, and *Chemical, \$⅞ ahead at \$38¾.*

Live Entertainment jumped \$¾ to \$2¾ on news that its home-video business had signed a three-year distribution agreement with a unit of Time Warner.

On the Nasdaq market, high-tech and telecommunications issues led trading. Microsoft fell \$1½ to \$112¾, MCI Communications added \$⅛ at \$31⅝ and Intel dipped \$⅝ to \$51¼.

Canada

TORONTO weakened late in *the day*, with declines seen in bank and utility shares. Banks fell on rising nervousness that Olympia & York is having trouble with its debt restructuring *process and faces the seizure of* several assets.

The composite index finished 23.7 down at 3,404.2, while falls outscored advanced by 313 to 258.

SOUTH AFRICA

CONTINUED demand for quality shares and a lack of sellers pushed leading shares off their lows to close firmer in thin trade. The overall index rose 9 to 3,642 and the industrial index gained 5 to 4,534. The gold index added 3 to 1,070.

ASIA PACIFIC

Nikkei resumes upward path on firm yen and bonds

Tokyo

THE NIKKEI average resumed its upward trend, after Tuesday's brief interruption, as a sharp rise in the yen and a rally in the bond market prompted bargain hunting by domestic investors, *writes Emiko Terazono in Tokyo.*

The 225-issue average closed 260.04 up at 18,768.57. Initially, arbitrage unwinding depressed *the index to the day's low of* 18,425.83, but the firm bond market later encouraged bargain hunting and index-related buying which pushed the Nikkei to the day's *high of* 18,803.79.

Volume was down slightly to 380m shares from 392m. Mr Brian Tobin at S.G. Warburg Securities *said most investors* were "cautiously optimistic" and activity was supported by small-lot domestic interest. Mr Tobin added that foreign inves*tors remained on the buying side, picking up cheap blue* chip issues.

Advances outnumbered declines by 570 to 423, with 141 issues remaining unchanged. The Topix index of all first section stocks gained 12.41 to 1,398.22, and *in London* the ISE/Nikkei 50 index put on 3.36 to 1,117.13.

The yen gained strength on a testimony by Mr David Mulford, the US Treasury undersecretary, in which he *expressed* concern about the Japanese currency's weakness against the dollar. The yen rose Y2.30 against the dollar to close at Y130.30.

Currency movements sparked active buying in interest rate-sensitive issues. Power utilities and shipbuilding shares firmed, with Tokyo Electric Power adding Y110 at Y2,890 and Mitsubishi Heavy Industries gaining Y5 to Y600.

However, exporters lost ground. Hitachi fell Y11 to Y839 and Matsushita Electric *Industrial* retreated Y10 to Y1,390. Auto makers were also weak, with Toyota Motor down Y10 to Y1,480 and Honda Motor declining Y30 to Y1,530.

Rumours that the development of an anti-Aids drug would be announced later this week lifted bio-technology issues. Okamoto Industries advanced Y130 to Y1,550 and Morinaga Milk appreciated Y17 to Y856.

Oil refiners rose on the recovery in crude oil products on overseas commodity markets. Nippon Oil gained Y26 to Y726 and Showa Shell Sekiyu Y100 to Y1,380.

Sanrio, the novelty maker, climbed Y80 to Y1,620. The company, which made extensive stock investments in the late 1980s, announced an upward revision of unrealised losses on its investment portfolio to Y21bn for the fiscal year ended this March.

In Osaka, the OSE average ended 60.49 higher at 21,346.90 in volume of 27.2m shares. Traders with a short-term horizon sought pharmaceutical issues. Ono Pharmaceutical advanced Y180 to Y3,150.

Roundup

DOMESTIC politics and foreign buying gave most markets in the region a lift yesterday, but political jitters had the reverse *effect in Thailand.*

HONG KONG accredited US buying and reform prospects in mainland China for its third consecutive record high. The Hang Seng index closed 52.02 stronger at 5,757.95 for a gain of 7.2 per cent so far this month. Turnover expanded from HK\$3.65bn to HK\$3.99bn.

Blue chips dominated the active list. HSBC turnover exceeded HK\$300m as it moved up 50 cents to HK\$45, boosted by the recent visit to Hong Kong by Mr Brian Pearse, chief executive of Midland Bank, HSBC's takeover target.

MANILA took heart from early election indications that senior presidential hopes Ms *Miriam Defensor-Santiago* and former defence secretary Mr Fidel Ramos were ahead in the polls.

Closed on Monday and Tuesday for the elections, the exchange saw the composite index rise 93.02, or 7.5 per cent, to 1,328.04, almost in touch with its all-time high of 1,396 registered late in 1989.

BANGKOK continued Tuesday's decline, reflecting further uncertainty over whether the government *would accept a* proposed constitutional amendment which would allow only an elected member of parliament to be prime minister.

The SET index fell 23.36, or 3.01 per cent, to 731.27 in turnover of Bt3.43bn. Bangkok Bank lost Bt16 to Bt676 and Bangkok Land Bt8 to Bt145.

SEOUL's high-capitalisation stocks retreated from their day's highs, but this still left the composite index 5.89 higher at 592.29 *in turnover up from* Won241bn to Won325bn.

TAIWAN reported buying of small speculative-oriented shares as the weighted index rose 36.08 to 4,325.32 in T\$16.7bn turnover (T\$13.3bn).

AUSTRALIA was lifted by industrials, and particularly media stocks after the recovery at News Corp. The All Ordinaries index put on 5.9, or 0.4 per cent, to 1,682.7, its highest for six months.

News Corp moved ahead 68 cents to A\$22.40. John Fairfax gained 8 cents to A\$1.52 in high volume of 17.5m shares after last week's listing at an issue price of A\$1.20.

NEW ZEALAND rose to a *four-month* high, helped by foreign buying centred on the forestry sector. The NZSE-40 index added 14.19 at 1,508.15.

BOMBAY recovered after *Tuesday's steep fall.* The BSE index moved forward 344.76, or 11 per cent, to 3,431.13.

EUROPE

Profit-taking leaves Paris lower at the close

Profit-taking was evident in Paris yesterday, as other senior bourses generally held steady, *writes Our Markets Staff.*

PARIS was initially lifted by a firm franc and bond market but profit-taking and a flat opening on Wall Street sent shares lower by the close. The CAC-40 index dropped 10.46 to 2,053.17 in moderate turnover *of FFr3.2bn.*

A FFr6.10 drop to FFr390 in Elf, which held its annual meeting yesterday, weighed on the market. The chairman said *first quarter operating profit* fell about 25 per cent from the year-ago period.

Unspectacular first quarter turnover figures sent Alcatel lower for the second day, closing down FFr13 at FFr648, and also wiped FFr18 off Saint Gobain to FFr595.

Euro Disney stabilised after Tuesday's drop, and analysts said the stock looked oversold. *It rose as high as FFr129.30* before closing 70 centimes better at FFr126. Pechiney International eased another FFr5.30 to FFr201.70 following Tues*day's private placement of new* shares.

FT-SE Eurotrack 100 - May 13

Hourly changes							
Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm	close
1191.17	1191.06	1191.30	1189.65	1190.13	1190.86	1186.60	1187.91

Day's High 1191.63 Day's Low 1187.55

May 12	May 11	May 8	May 7	May 6
1188.40	1191.63	1188.95†	1182.52	1182.62

Base value 1000 (26/10/90). † Partial.

FRANKFURT was mixed in quiet trade as metalworkers mooted further talks with *employers; after hours, a* resumption of talks was scheduled for Hesse today. The DAX index closed 1.74 lower at 1,749.42 after a similarly token 0.16 rise to 706.98 in the FAZ at midsession. Volume eased from DM6.2bn to DM6bn.

An unsubstantiated rumour that Deutsche Bank had recommended steel stocks left Hoesch and Klöckner-Werke *DM3 and DM1.50 higher*, at DM246 and DM118 respectively, but Preussag fell DM6.90 to DM406.

Kaufhof, the retailer, gained DM7 to DM498 on a higher dividend and a 30 per cent jump in net profits.

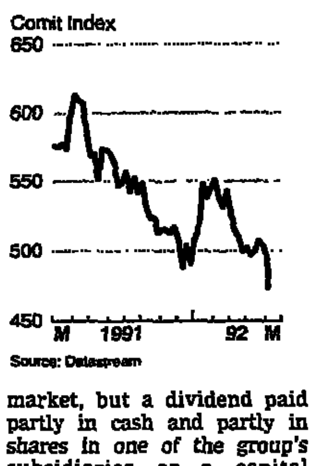
MILAN was supported by short-covering ahead of the *close of the account tomorrow.* Dealers said that call options on Fiat and Montedison were taken up but that those on insurance stocks had been abandoned. The Comit index edged up 0.73 to 482.33 in turnover estimated at L80bn-L100bn after L86.6bn on Tuesday.

Dealers were sidelined ahead of the Fiat results due tomorrow, *which could either help* the market to recover or condemn it to a further decline. A 30 per cent cut in the dividend has been discounted by the market, but a dividend paid partly in cash and partly in *shares in one of the group's* subsidiaries or a capital increase, both rumoured yesterday, would be taken badly.

Olivetti rose L77 to L2,949 on turnround hopes after its heavy loss and restructuring charges last year.

ZURICH took SBC at its word. The bank said on Tuesday that Moody's downgrading of its triple-A rating was not material. Its shares recovered SFr6 to SFr287 as the SMI index closed 3.7 higher at 1,953.5.

Italy



Source: Datastream

AMSTERDAM was disappointed by Aegon's flat earnings per share for 1991 and its shares fell Fl 1.10 to Fl 124.80. The CBS Tendency index was *unchanged at 130.2.*

CSM, the food and biochemicals group, advanced 90 cents to Fl 96.60 on unsurprising first-half figures. Hunter Douglas lost Fl 1.50 or 2 per cent to Fl 75.30 after reporting a small *rise in first quarter sales after* Tuesday's close, while Royal Dutch, which reports first quarter figures today, eased Fl 1.10 to Fl 150.20.

MADRID's general index closed up 2.91 at 260.82 with strong buying noted late in the session prior to the expiry of futures and options contracts today. Endesa put on Pta105 to Pta3,675 after reporting better-than-expected first quarter earnings while Tabacalera weakened *Pta90 to Pta6,700.*

STOCKHOLM rebounded from an early drop on demand for Volvo and Ericsson. The Affärsvärlden general index added 1.4 to 1,007.8 in turnover of SKr689m after SKr576m.

Ericsson B free's added SKr6 to SKr141 following Tuesday's late news of a big Japanese order. Volvo B free's recovered SKr4 to SKr448 after Tuesday's *drop.*

COPENHAGEN was lifted by a 38 per cent jump in Novo Nordisk's first quarter net, the KFX index closing 0.38 higher at 96.39 as Novo rose DKr13 to DKr547. Hafnia fell DKr24 to DKr200 in thin, speculative trading. HELSINKI dropped on profit-taking, the Hex index felling 12.2 to 852.3.

BRUSSELS eased with the Bel-20 index closing down 3.12 at 1,221.74 in thin turnover of BFr669m. Electrabel, which announced investment plans of BFr40bn in 1993, lost BFr55 or 1 per cent to BFr4,890. VIENNA's ATX index shed 1.81 to 966.75. Among active issues Austrian Airlines lost Sch30 to Sch2,290 *after announcing a 12 per cent* decline in first quarter earnings.

Elections bring changes in fortune

But the Easter holidays kept turnover low in April, writes John Pitt

Election fever coursed through Europe last month but the results had contrasting repercussions in the Italian and the UK stock markets. In general, volume was subdued, with Easter and May Day creating a holiday mood which extended for nearly two weeks.

The return of the Conservative party to government in the UK was doubly welcomed by the market, which had been battening down the hatches, either for the uncertainty of a coalition or the unknown of a Labour administration. Utilities, which had been depressed by fears of renationalisation, attracted very heavy buying.

Following an initial boost immediately after the general election result, investors settled down to wait for some real corporate stimulus. This was not long in coming as Hong Kong and Shanghai Banking Corporation launched a £3.3bn bid for Midland Bank, soon followed by a counter-offer from Lloyds Bank. Signs that an end to the recession might be in sight also lifted sentiment.

EUROPEAN EQUITIES TURNOVER
Monthly total in local currencies (bn)

Bourse	Jan 1992	Feb 1992	Mar 1992	Apr 1992	US \$bn
Belgium	55.85	46.72	48.28	51.36	1.51
France	141.18	116.18	108.97	112.17	20.10
Germany	134.30	126.20	126.68	107.90	65.28
Italy	9,665.20	8,948.80	5,944.80	7,457.20	6.00
Netherlands	16.10	14.10	11.60	12.20	6.55
Spain	637.26	667.83	607.28	461.52	4.44
Switzerland	13.20	10.90	11.88	12.48	8.22
UK	36.40	29.61	32.59	41.17	73.04

Volumes represent purchases and sales.
Italian data adjusted to include off-market trading. Some figures may be revised.
Source: County NatWest WoodMac.

Lacking a government of any sort, Italy free-wheeled and the manifest rise in April was due to an exceptionally weak March, when volume had been depressed by uncertainty about the outcome of the elections.

According to Mr James Cornish of County NatWest, which supplies the data, April volume was nearly 9 per cent down on the average of the previous three months, while trading on Seaq International in London declined by almost 30 per cent.

Spain continued to underperform the rest of Europe, with daily average turnover a very modest Pta7bn, although activity was restrained by the Semana Santa holiday preceding Easter. According to James Capel, activity was depressed by high interest rates, a lack of foreign interest, and the continued growth of mutual funds which took money out of equities. There is little prospect of an upturn, it says, until interest rates are reduced.

General expectations are that today's Spanish April inflation data will reveal only a small increase over March, giving further encouragement for the cut in interest rates which could get the equity market going again. However, Mr Stephen Hughes of Nikko Europe in London believes Spain is unlikely to follow the UK and France in easing monetary policy in the short term. He expects the annual inflation *rate to exceed the government's* target and is currently forecasting a 6.6 per cent rate.

The prospect of strikes in the public service sector in Germany, which began at the end of the month, was taken calmly by the market.

Car manufacturers provided one of the sectors which performed well during the month, following the announcement by Daimler that it would increase its 1992 dividend by DM1 to DM13 and positive forecasts for increased sales of new vehicles.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie *in conjunction with the Institute of Actuaries and the Faculty of Actuaries*

NATIONAL AND REGIONAL MARKETS	WEDNESDAY MAY 13 1992								TUESDAY MAY 12 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (69)	151.26	+0.5	123.66	124.54	127.56	133.60	+0.2	4.12	150.46	123.07	124.06	126.84	133.29	153.68	140.94	144.18
Austria (19)	165.91	+0.4	135.64	136.60	139.91	139.88	−0.1	2.09	165.32	135.23	136.32	139.37	140.05	186.70	162.48	204.08
Belgium (46)	143.08	−0.4	116.98	117.80	120.66	117.68	−0.7	5.17	143.60	117.46	118.40	121.05	118.46	145.19	135.87	139.83
Canada (115)	127.42	−0.2	104.17	104.90	107.44	111.13	−0.4	3.31	127.68	104.44	105.27	107.62	111.59	142.12	125.60	136.43
Denmark (35)	241.00	+0.3	197.03	198.43	203.23	205.36	−0.1	1.78	240.35	196.60	198.20	202.62	205.62	273.94	226.81	242.01
Finland (15)	81.90	−0.5	66.96	67.44	69.07	75.57	−1.2	1.81	82.35	67.36	67.91	69.42	76.46	89.80	73.64	116.35
France (105)	166.29	−0.5	135.94	136.90	140.21	142.03	−0.4	3.32	167.06	136.65	137.75	140.82	142.62	167.06	148.06	138.36
Germany (65)	120.78	+0.0	98.74	99.45	101.85	101.85	+0.0	2.28	120.79	98.80	99.62	101.82	101.82	122.84	114.67	110.69
Hong Kong (55)	238.70	+1.1	195.15	196.53	201.30	237.16	+1.0	3.44	236.10	193.12	194.68	199.04	234.75	238.71	176.36	156.08
Ireland (16)	163.14	−0.1	133.37	134.32	137.57	139.48	−0.3	3.87	163.28	133.56	134.64	137.64	139.90	173.71	151.78	156.03
Italy (78)	69.32	+0.3	56.67	57.07	58.45	63.21	+0.4	3.64	69.11	56.53	56.99	58.26	62.99	80.86	68.92	78.31
Japan (473)	105.49	+1.1	86.24	86.86	88.97	86.86	+1.0	0.98	104.33	85.34	86.03	87.97	86.03	140.95	88.70	138.69
Malaysia (68)	240.14	−0.7	196.32	197.70	202.50	233.16	−0.6	2.78	241.74	197.74	199.33	203.78	234.47	250.18	212.49	227.53
Mexico (18)	1639.77	+0.2	1340.56	1350.07	1382.77	5534.48	+0.1	1.03	1636.43	1338.57	1349.39	1379.54	5530.38	1789.77	1376.91	995.27
Netherland (25)	158.43	−0.3	129.52	130.44	133.60	132.00	−0.3	4.23	158.88	129.98	131.01	133.94	132.37	158.88	147.88	140.56
New Zealand (14)	45.64	+1.6	37.31	37.58	38.49	45.42	+1.3	5.63	44.90	36.73	37.03	37.85	44.84	48.52	42.01	51.88
Norway (23)	189.05	+0.7	154.55	155.65	159.43	161.98	+0.1	1.57	187.65	153.49	154.74	158.20	161.86	192.95	161.26	207.68
Singapore (38)	214.76	+0.5	175.57	176.82	181.10	162.11	+0.1	2.01	213.71	174.81	176.23	180.16	162.01	228.43	192.76	202.29
South Africa (61)	245.96	+2.0	201.08	202.50	207.41	183.82	+0.2	2.74	241.25	197.33	198.93	203.37	183.43	263.60	203.16	210.73
Spain (50)	158.52	+1.2	129.60	130.52	133.68	121.65	+1.1	4.99	156.70	128.18	129.22	132.10	120.37	160.47	146.86	164.11
Sweden (25)	196.12	+1.0	160.33	161.48	165.39	169.41	+0.8	2.67	194.22	158.87	160.16	163.74	168.13	196.12	173.09	178.59
Switzerland (59)	106.18	+0.6	86.80	87.42	89.55	98.41	+0.0	2.17	105.49	86.29	86.99	88.94	98.36	106.18	95.99	93.89
United Kingdom (228)	198.57	+0.0	162.34	163.48	167.44	162.34	+0.0	4.57	198.53	162.40	163.70	167.35	162.40	198.57	165.85	172.64
USA (522)	169.78	+0.0	138.80	139.79	143.18	169.78	+0.0	2.94	169.76	138.86	139.99	143.12	169.76	171.66	160.92	149.19
Europe (789)	155.05	+0.0	126.76	127.66	130.75	129.59	+0.0	3.80	154.97	126.76	127.79	130.65	129.62	165.05	139.31	199.88
Nordic (98)	182.59	+0.6	149.27	150.33	153.97	151.15	+0.2	2.14	181.49	148.45	149.65	153.00	150.78	188.52	169.66	179.81
Pacific Basin (717)	*111.40*	*+1.0*	*91.08*	*91.73*	*93.95*	*92.68*	*+0.9*	1.35	*110.25*	90.18	*90.91*	*92.94*	*91.77*	141.97	*94.40*	*139.14*
Euro−Pacific (1506)	129.08	+0.6	105.53	106.27	108.85	107.92	+0.4	2.52	128.36	104.99	105.83	108.20	107.43	145.21	113.80	139.79
North America (637)	167.12	+0.0	136.63	137.61	140.95	165.79	+0.0	2.98	167.12	136.70	137.82	140.91	165.80	169.69	158.70	148.32
Europe Ex. UK (561)	*129.32*	*+0.1*	*105.73*	*106.50*	*109.08*	*110.74*	*+0.0*	3.19	*129.23*	*105.71*	*106.59*	*108.97*	*110.77*	*129.79*	*121.81*	*119.92*
Pacific Ex. Japan (244)	169.66	+0.7	138.70	139.70	143.06	151.31	+0.5	3.59	168.54	137.86	139.00	142.10	150.58	169.66	149.00	143.40
World Ex. US (1700)	131.30	+0.6	107.34	108.11	110.73	110.15	+0.4	2.53	130.56	106.79	107.66	110.07	109.70	146.91	116.45	140.88
World Ex. UK (1994)	*138.08*	*+0.4*	*112.88*	*113.69*	*116.45*	*125.13*	*+0.3*	2.45	*137.54*	112.51	*113.42*	115.96	124.77	*150.58*	*127.21*	*139.69*
World Ex. So. Af. (2161)	142.61	+0.3	116.59	117.43	120.27	128.10	+0.3	2.70	142.15	116.28	117.23	119.84	127.78	153.05	130.04	142.19
World Ex. Japan (1749)	164.54	+0.1	134.52	135.49	138.78	152.57	+0.0	3.27	164.39	134.47	135.57	138.61	152.54	164.54	153.20	146.05
The World Index (2222)	143.29	+0.3	117.14	117.98	120.84	128.60	+0.3	2.70	142.79	116.80	117.75	120.39	128.28	153.70	130.66	142.61

Constituent change with effect 14/5/92: Addition: Elvia (Reg.) (Switzerland).